“In Good Times or Bad, People Have to Eat” Joe Albertson and His Supermarket Empire

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In collaboration with
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for

John Coppage

1938 – 2006

Table of Contents

Acknowledgments

Back in January 1978, I first started doing my grocery shopping at Albertson's. That's when I relocated to Pocatello, Idaho, to take a temporary position in the Department of History at Idaho State University, and Albertson's was the most convenient and also the best local grocery store. For most of the next ten years, I continued to do my grocery shopping at Albertson's, either in Pocatello, Twin Falls, or Boise, as I moved around the state, working next as Acting Director of the Institute of the American West in Sun Valley, and later in the Dean's Office of the School of Social Sciences and Public Affairs at Boise State University. I shopped at Albertson's throughout Idaho and made it a point while traveling through the West to do the same.

I liked the Albertson's stores. There were a lot of them, meaning the locations were always convenient. The layout of each store was attractive and the groceries and other items always fresh and priced right. Good memories of Albertson's have remained with me. When Tom Hale, Professor of History and Director of the Oral History Project at Idaho State University, asked me to write a biography of Joe Albertson and his supermarket empire, I welcomed the opportunity. That was several years ago, and where I currently live, on the east coast, there are no Albertson's close-by. While preparing this book, I did travel, visiting Idaho, Florida, and occasionally California, and I shopped at Albertson's throughout these areas. And I felt very comfortable shopping at Albertson's once again.

The research and writing of this book took place at a critical time for Albertson's and the supermarket industry, a time when ferocious competition within the industry was intensified by the unrelenting growth and success of Wal-Mart, which quickly emerged as the number-one seller of groceries in the nation. These were the years when Albertson's lost its lead and eventually sold itself.

This book is an account of Joe Albertson's empire building, starting with a single Albertson's Food Center in Boise and directing its growth into a behemoth of several thousand stores, actually

reaching the position of number one in grocery sales in the nation. The book talks about the supermarket industry, an American original, that Joe Albertson helped revolutionize. The principles that guided him in 1939 when he opened the first store guided the company through most of its life, and these were important to its success. The book also traces the demise of Albertson's, its sale in 2006 and its dismemberment.

In conducting the research and developing my knowledge of the American supermarket industry, I relied on materials found in a number of libraries, including the Boise Public Library, the Boise State "Joe Albertson" Library, the Library of Congress, and the Martin Luther King Library in Washington D.C. because my research has been exclusively in public records. In addition to the many librarians, a number of colleagues and friends helped out, answering questions, responding to requests, or giving me a place to stay when I came back to Boise. My friend, Tom Hale, has always supported my work, beginning when he first hired me as an interim instructor at ISU. I am grateful to Tom for his support over many years and continuing interest in my work. Another friend in Idaho, Steve Thorson, guided me through the intricacies of entrepreneurship, business and corporate finance. Steve has been a good friend for many years. Bob Sims, Professor Emeritus at BSU, also supported my work and always showed much interest in what I was doing. I remain grateful to Bob for his friendship and support. Ken and Ann Swanson were always willing to listen to my stories about Albertson's and a whole lot of other projects, and to offer sage advice. Plus, they always had a place for me to stay when I visited Boise. The Swansons have been good friends for many years too. Jan Boles of the Smylie Archives, Albertson's College of Idaho, was always ready to answer a question or to send materials on the college, and I appreciate his assistance. I am also grateful to the Alden B. Dow Creativity Center and Northwood University, a unique institution in Midland, Michigan, emphasizing business, free-enterprise and entrepreneurship. I have been affiliated with the Creativity Center and Northwood for more than two decades,

and that relationship has expanded my outlook and enhanced my understanding of business and entrepreneurs. Finally, my wife, Katrin Reichelt, has joined me on many a shopping venture to an Albertson's, and she has listened patiently to my stories for a lot of years. I am very grateful to her for support and interest, and we are both happy to see this project come to its conclusion.

Lastly, I dedicate this book to my late friend John Coppage. We met many years ago in Midland, Michigan, when I first held a fellowship at the Alden B. Dow Creativity Center which was directed by his wife, Carol. Over the years, my connection with the Creativity Center grew and I spent many hours talking with John and Carol. Both have always shown a strong interest in my work and have always offered guidance, insight, and friendship. John Coppage was an engineer by training, a businessman, a leader in his church and community, and a voice of reason who always listened patiently and then responded with penetrating insight and great compassion. He had a powerful sense of responsibility to his family, his community, his colleagues, and his friends. John and I also shared a love for ice hockey, both playing and watching this wonderful sport. John is missed deeply by everyone who knew him.

Bob Waite
Shushan, New York

CHAPTER 1

"ONE OF THE MOST MODERN SELF-SERVICE MARKETS" GROCERY STORES, THE SUPERMARKET BUSINESS AND JOE ALBERTSON

Joe Albertson created a supermarket empire that went far in changing forever a major American enterprise. Albertson's empire grew from one store in Boise to more than 2,500 stores in 2006 through his hard work, vision, as well as his entrepreneurial talent that enabled him to make the right decisions at the right time and his judgement to hire and motivate persons who became top managers or top cashiers. Joe Albertson was among the leading American businessmen of the 20th century, and like a number of others in that distinguished group, he used his success to benefit his employees, shareholders, and his home state of Idaho, where he was reared, where he started his business, and founded an empire. Joe Albertson's achievements and commitment to Idaho led Boise's Idaho Statesman in early 1990 to conclude: "He, his wife Kathryn, and Albertson's Inc. probably have provided more jobs, created more wealth and given more money to charitable and philanthropic causes than anyone else alive today in Idaho."[1]

A mild and unassuming man, Joe Albertson piloted the growth of his business empire from a single store, opened in July 1939 on the edge of downtown Boise, to the nation's sixth largest food and drug chain in 1990. And it continued to grow. The year 1992 marked the company's 23rd consecutive year of increased sales and earnings, a phenomenal business achievement and especially remarkable in the highly competitive supermarket trade. By 1993, Albertson's Inc. operated 656 stores in 19 western, mid-western, and southern states,

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[1] Paul Beebe, "Stores, Jobs, City Park Reflect Drive, Altruism," Idaho Statesman (January 1, 1990). "Albertson's," "Fortune 500, 2006," www.money.cnn.com.

employed 71,000 individuals, and boasted annual sales of over $10 billion.[2] A series of acquisitions led Joe Albertson's supermarket empire past the 2,500 mark in outlets with sales in 2005 of $28.82 billion. It rose to number two in the nation in revenue, trailing only Kroger. [3]

The fruits of this success have long had a major impact on Idaho, on large parts of the country, and on his industry. In 1990, for example, the company employed 3,300 people in the Gem State, operated 24 stores there, and situated in Boise the corporate headquarters, a division office, an ice cream plant, a sundries center, as well as a printing and supply operation. Furthermore, the 1,770 stockholders in Idaho controlled 27 percent of the company's shares, a sum equal to nearly $1 billion. Joe Albertson and his wife also bailed out the financially strapped College of Idaho, a prominent liberal arts college, where they, incidentally, had attended college and met many years earlier. The support from the Albertson family was so great that the school renamed itself "Albertson College" in 1991. Their commitment to education led to other ventures. Launched in 1966, the J.A. and Kathryn Albertson Foundation helps children, particularly in Idaho, motivated by the dedication of its endowers to making improvements in education throughout the Gem State. In addition, over the years, Joe Albertson paid the college tuition for as many as 30 young people, all the time keeping his support quiet. The Albertsons also supported the construction of the Morrison Center, a venue for the performing arts at Boise State University, as well as the university library. They donated a 41 acre park to the city, ensuring that a strip of green and open land along the Boise River would

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[2] "1992 Annual Report, Albertson's."

[3] "Albertson's Earnings Rise 19.6%," Chain Drug Review (January 3, 2005). "Fortune 500, 2006."

remain accessible to all. [4]

The impact of Joe Albertson's vision, determination, entrepreneurial skills, hard work and success in creating a supermarket empire go well beyond Boise, beyond Idaho, and beyond the Rocky Mountain West. The industry revolutionized by Joe Albertson is an American original--the supermarket grew from an unknown enterprise in the 1920s to the dominant outlet for food and an important source for consumers for many other non-food items. But it took some time. In the decade following the First World War, the grocery business was in fact one of the most backward of American retail areas. For many years, customers had to buy products, such as groceries, meats, and produce, in different stores, in different locations. Specialty shops handled each of the various lines of products: they offered consumers good quality, but the range was narrow. The nature of the grocery industry, the way it was practiced in the 1920s, affected the store owner because the limited lines stocked restricted expansion and thereby profit potential.

The big store offering one-stop shopping to customers, with its wide variety of grocery products ranging from fresh bread to meats and produce, came only late to the grocery industry. Other commercial outlets--such as department stores and mega-retail centers selling a host of dry-goods--appeared in a few of the major American cities already in the 1890s. In New York, Philadelphia and Chicago, these stores came to dominate the urban landscape. Macy's, Felines, Wannamaker and Marshal Fields all opened their doors around the turn of the century and helped usher in a new era in consumerism, radically changing the retail industry and shoppers' expectations. These new, mass retailers sold huge amounts of goods in newly constructed "commercial palaces," their existence and success made possible by the expanding prosperity of turn-of-the-century America and the growing availability of capital needed to grow

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[4] Beebe, "Stores, Jobs, City Park."

and expand.[5] Department stores spread to small cities and towns in the early 1900s, as the larger stores opened new outlets and bought out competitors, and as local entrepreneurs attempted to copy the success of the big city business leaders. Some of urban department stores, the "palaces of consumerism," also sold groceries, meats, produce, breads, tea and coffee. They provided important models to aspiring entrepreneurs. Even the big department stores typically began as a one-store venture, but the vision, hard-work and sheer good luck of the founder led to their rapid expansion. That was largely possible through their growing alliance with investment bankers who offered and provided the needed capital. [6]

As the great stores, the new and large department stores, grew in number, they became dependant on distribution and marketing to keep the isles stocked with an array of goods, items always ready for purchase and always offering the consumer what he or she desired. The expansion of the interstate highway system and emergence of trucks and companies eager to tap this new market played important roles in this development. [7]

The model of the department store gradually spread to the grocery industry. Only with the higher prices that accompanied World War I did the consumer begin to turn to the cash and carry shops which now offered a variety of items under one roof at competitive prices.[8] The combining of various lines of goods, such as groceries, produce, and meats, in a single store proved to be economically

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[5] See William Leach, Land of Desire: Merchants, Power, and the Rise of a New American Culture (New York: Pantheon Books, 1993), pp. 20-26.

[6] Ibid., pp. 23-26.

[7] Ibid., p. 36.

[8] Randolph McAusland, Supermarkets: 50 Years of Progress (Washington, D.C.: Food Marketing Institute, 1980), p. 5.

desirable for the entrepreneurs and popular among consumers because they offered shoppers greater selection, better prices, and simply more convenience. The traditional loyalty to specialty stores began to break down, though only slowly in many areas, and not without challenges from other retailers and manufacturers.[9]

In 1916, long-time grocery worker Clarence Saunders opened the first self-service grocery store, Piggy Wiggly, in Memphis, Tennessee. A shrewd marketer, Saunders ran a series of ads in the local newspapers, telling consumers that his store would crush what he termed the "demon of high prices." On opening day, the crowd was so large that Saunders had to provide admission tickets. Once inside the store, shoppers picked up a wooden basket at the entrance, and wooden railings guided them through the four aisles. His store was a hit with the people of Memphis. Piggy Wiggly's success with self-service shopping and Saunders' cleaver marketing "paved the way for the development of the supermarket." [10]

The coming of the war to America in 1917 meant that carrying home large bags of groceries was a patriotic act, a way of showing others that you, too, were saving money and manpower by shopping in one place. Along with the expansion of the merchandise lines during the years following World War I came growth in the size of the store in some areas, as its physical space and the choice of products offered became greater. The next step was to duplicate the successful format and to establish new stores following the same format in other locations, much as the department stores had done. After World War I, the first chain stores flourished in the grocery business, with A&P, for example, operating 4,544 stores in 1920, and that figure leaped to 14,034 by late 1925. Other chains, such as Kroger and National Tea, also increased their numbers greatly, and

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[9] Ibid., p. 15.

[10] Ibid., p. 17.

this growth was reflected in the companies' steadily rising profits.[11]

In the 1920s, a few chains or individual outlets operated combination grocery stores that offered one-stop shopping, featuring different items under one roof. Throughout this decade, grocery chain stores expanded rapidly. This expansion now provided some of them with the opportunity to buy directly from manufacturers and to purchase larger quantities for cheaper prices, resulting in savings that could, in turn, be passed on to the consumer. Another change was the spread of self-service merchandising with a larger number of items pre-packaged attractively and ready for the shopper to take from the shelves and place in the shopping cart. The prepared packaging helped the store profits, too, because many purchases were made by impulse, as the customer picked up what looked good and tasty - and offered at the right price. Also during these years, grocery stores began to shift more operations from a credit and delivery system to that of cash-and-carry. Increasingly, grocery stores offered free parking, especially in the western and southwestern areas of the country, as more of the public relied upon the automobile.[12]

By the 1930s, supermarkets and their underlying philosophy of one-stop shopping, and particularly their convenience, gained popularity in America. The Great Depression interrupted this development and actually sparked some hostility toward the chains. The decade of the 1930s became a period of stabilization in this

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[11] William I. Walsh, The Rise and Decline of the Great Atlantic & Pacific Tea Company (Secaucus, New Jersey: Lyle Stuart Inc., 1968), pp. 40-42. Joseph J. Trout, "The Chain Stores Sharpened Competitive Spirit, Resulting in Better Stores for All," Progressive Grocer 31(October 1952), pp. 180, 182. See, George Laycock, The Kroger Story: A Century of Innovation (Cincinnati, Ohio: The Kroger Co., 1983).

[12] McAusland, Supermarkets, p. 5.

market.[13]

Even with the innovations and expansion of the early decades of the 20th century, the basic ingredients of supermarket merchandising remained much the same. The only difference is that a handful of visionary entrepreneurs took a good idea and made it better, much better, and a lot more profitable. Innovators such as Joe Albertson took the idea of the cash-and-carry, or self-service, store and turned it into today's supermarket, a one-stop shop where the customer gets not only a wide variety of goods at the best price but which also features first rate service and attention to customer needs.[14]

Even with the trend toward bigger and bigger supermarkets and a marketplace dominated by the large chains in the 1920s and 30s, there was still a place for the small independent market, the kind of store Joe Albertson had in mind when he opened the doors to the first Albertson's Food Center on July 21, 1939. The smaller grocery stores had to respond to the changing marketplace. Grocers, such as Joe Albertson, constantly faced the decision of whether to grow and expand or simply try to hold on in the face of heightened competition, while perhaps, carving out a specialty niche for themselves, building and holding onto a solid base of loyal customers in the process. Most grocers remained content to make a decent living, serving a fairly steady number of regular customers and offering products that meant their basic needs and desires. The grocery trade was a tough and unforgiving business, involving considerable risk and demanding long

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[13] Ibid, pp. 7-13. Leach, Land of Desire, pp. 379-382.

[14] On the history and development of the supermarket, see Rom J. Markin, The Supermarket: An Analysis of Growth, Development, and Change (Pullman, Washington: Washington State University, Bulletin No. 43, February, 1968), pp. 1-36; Dr. Faye Gold, Dr. Alfred E. Berkowitz and Milton M. Kushins, Modern Supermarket Operations (New York: Fairchild Publications, 1965), pp. 1-9; and Trout, "Chain Stores Sharpened Competitive Spirit," pp. 178-189.

hours for those starting up or running their own businesses.

An early pioneer in the grocery industry was Michael J. Cullen, a veteran of almost three decades in the grocery business, first with A&P and then with Kroger Grocery & Baking Company. In 1930, Cullen opened what he termed a "warehouse grocery" in a vacant garage in Jamaica, New York. His idea was to set-up business on the edge of town, where rents were cheap and parking plentiful. Equipped with cheaply made fixtures, such as simple pine tables piled high with goods, the store was packed with items, all offered at a cut-rate price. King Cullen's "Big Bear" opened on December 8, 1932, and announced with ads, "Big Bear Crushes New Jersey," "Big Bear Drives Prices Down," and "Big Bear, World's Champion Price Fighter." The store did a whopping business, shattering first day records for customer numbers and sales.[15] From these outlets, he offered no-frill shopping, with brand items advertised at low rates that would attract shoppers. Cullen developed an aggressive advertising campaign emphasizing the low prices, and he promoted himself as the "World's Greatest Price Wrecker." The ads boasted: "This store will save every family from $2 to $5 on their groceries every week in the year." Also, the ads carried his price and that of the chain store so the shopper could see the savings immediately. Cullen went so far in one advertisement to urge customers to "Tell your friends and neighbors about this great price-wrecker. Tell 'em it's the lowest price grocery in all America. Tell 'em our prices are not for a day or a week, they are our regular every day prices."[16] His strategy worked. By 1936, he had built a chain of 15 King Cullen stores. As others followed his example, offering quality

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[15] M.M. Zimmerman, The Supermarket: A Revolution in Distribution (New York: McGraw-Hill Book Company, Inc., 1955), pp. 39-40.

[16] See his advertisement in McAusland, Supermarkets, pp. 16-17. Tom Mahoney and Leonard Sloane, The Great Merchants: America's Foremost Retail Institutions and the People Who Made Them Great (New York; Harper & Row, 1966), pp. 170ff.

products as low prices, the elements of the modern supermarket began to come together.[17]

The number of markets spread during the mid-1930s, largely in the east and mid-west. Most followed the King Cullen model, markets set up on the edge of town in what had been vacant factories or garages, with large, open spaces, where a number of tables or simple shelves displayed the goods, all offered at rock bottom prices.[18] By the late 1930s, the supermarket business in much of the country, including the Rocky Mountain West, was dominated by a number of small, independent grocery stores and only a handful of chains. In 1939, Boise had close to 100 retail grocery stores, almost all of which were one-shop enterprises, stores such as the Central Market, Falk Mercantile Co., the Golden Rule, and Nelson Brothers, which served a loyal clientele of nearby residents. Of the major chains, Safeway had established itself most firmly in the Intermountain West, with four outlets in Boise.[19] It was one of Safeway's young managers by the name of Joe Albertson who was to soon change the entire industry. Along the way, he introduced a number of service orientated features and built an empire that remained for decades one of the most profitable of all the supermarket corporations in the nation. He also kept the corporate headquarters in Boise, the location of his home and the first store. Over the years, Joe Albertson's supermarkets have given jobs and careers to thousands of Idahoans. Joe Albertson has contributed more to the prosperity of the Gem State than just about anyone else. And he went far in revolutionizing one of America's most fundamental businesses.

Joe Albertson grew up on a homestead about six miles west

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[17] McAusland, Supermarkets, pp. 5, 14-17. Zimmerman, The Supermarket: A Revolution in Distribution, pp. 31-43.

[18] Zimmerman, Ibid., pp. 54-55.

[19] "Grocers-Retail," in Polk's Boise City Directory 1939-40 (Salt Lake City, Utah, R.L. Polk & Co., 1939), pp. 712-713.

of Caldwell, not far from Boise. Born on October 17, 1906, in Yukon, Oklahoma, to Rhoda and Earl Albertson, Joe had three brothers. Earl Albertson worked as a farmer and horticulturist in the mid-west until 1909, when he, like thousands of others, decided to go West. Seeking a new and brighter future, he took his family to this unknown area that was just beginning to open up. Earl Albertson and his family headed west and settled on a homestead in western Idaho. When they arrived, they found that the homestead had been relinquished and the land covered with sagebrush, not a very promising start. In spite of the obstacles, the family settled in and began farming. As a boy, Joe Albertson helped out on the farm and later attended Caldwell High School, graduating in 1925. From there, he entered the College of Idaho, also in Caldwell, studying business, but he remained there only for two years. These were tough years for the farmers' young son. To earn money while a student, Joe Albertson worked as a janitor, stoked furnaces, and even carried the blocks of sandstone used to construct the Strayhorn Building, the college's old library. He did, however, find time to play football. [20]

At the College of Idaho, Joe Albertson met Kathryn McCurry, a fellow student who sat near him in chemistry class. They talked, began dating, and fell in love. Kay, as Joe always called her, became his wife on January 1, 1930. With hard economic times hitting Idaho and the onset of the Great Depression, Joe Albertson made a fateful decision: after just two years of study and midway toward his degree, he quit college. He had decided to enter the grocery business and took a job with Safeway. As Joe Albertson later recalled, there was good reason for the choice of jobs. "In good times or bad, people have to eat, so I figure it's a good business. There are times when

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[20] Ibid. "Yukon Celebrates Tie To Grocery Icon," Daily Oklahoman (August 8, 1999). Memories, Joe Albertson (Boise, Idaho: Albertson's Inc., Communications Department, May, 1993), p. 2. Paul Beebe, "Albertson: 1939 Principles Still work," Idaho Statesman (July 16, 1978).

they'll eat T-Bone and times when they'll eat salt pork and beans, but they'll always eat."[21] There would, in short, always be a need for a grocery store.

At Safeway, Joe Albertson rose through the ranks quickly, and by early 1939, he supervised 16 stores from his office in Ogden, Utah. Gradually, he grew restless with corporate life and became eager to have his own store, one set up and operated according to his specifications. Joe Albertson made another fateful decision: he left Safeway on April 1, 1939, in order to devote full time to his dream—an Albertson's food center in Boise.

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[21] Ralph Friedman, "A Desire to Win," Supermarket News (August 18, 1969), p. 18. Memories Joe Albertson, p. 2.

CHAPTER 2

"I DIDN'T GO TO BED FOR TWO DAYS"
JOE ALBERTSON GOES ON HIS OWN, 1939 - 1950

Promptly at 7:00 a.m. on July 21, 1939, the first Albertson's Food Center, billed in the newspaper ad as "Idaho's largest and finest food store," opened its doors for customers. Located at the corner of 16th and State Streets in Boise, on the edge of downtown, the city's newest grocery store served at first the adjacent neighborhoods, but its advertising appealed to all residents of Boise. It took courage for Joe Albertson, the young grocery store manager rising through the ranks at Safeway, to go out on his own in a city that, to be sure, he knew well, but which was already well-served by close to a hundred other grocery stores, including a Safeway and the well established Central Market, Falk Mercantile Co, the Golden Rule Store, the Main-5th Street Market and Nelson Brothers.[22] The ads for the Golden Rule, located not far away at Idaho and Tenth Streets, described itself as "Idaho's Dominant Store," and stated "Our Ideal is Service - Courteous, Cordial and Complete."[23]

In 1939, Boise was a small but growing city whose population had gone from 24,544 to an estimated 30,000 within a decade. Still, it had only two banks, a single trust company and three building and loan associations. The greater retail area, encompassing a radius of 50 miles, had a population of 100,000. The Chamber of Commerce boasted that the capital city was also the "federal headquarters for the activities of the U.S. Government in the state," and that meant "not

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[22] "Grand Opening of Idaho's Largest and Finest Food Store," Idaho Statesman (July 21, 1939). "Our Company. Remembering Our Heritage," www1.albertsons.com. For a listing of the retail grocery stores and their locations, see Polk's Boise City Directory 1939-40, pp. 712-713.

[23] Polk's Boise City Directory 1941 (Salt Lake City, Utah: R.L. Polk & Co., 1941), p. B.

only...a large payroll, but...many visitors to the city to transact federal business." The Chamber was optimistic and insisted that "Boise is destined to grow. With an ideal climate, with a supporting territory rich in natural resources, and with progressive energetic people Boise gives promise for a steady expansion of her industries and population."[24]

Joe Albertson left a secure job at Safeway, where he had risen up the management ladder and by 1939 supervised more than a dozen stores out of an office in Ogden, Utah. But Joe Albertson believed that he had some new ideas about service and products, and a vision he was eager to test. "I thought the opportunities as an individual operator were greater for me than I had seen with Safeway, at that particular time," he later told an interviewer. "I thought it was a good investment and I went ahead." When asked about the risk he took, Joe Albertson, always the optimist, responded: "If I failed I knew I could get some kind of a job and make a living for my family."[25]

First, though, he had to assemble enough capital to lease space and to stock the food center. Joe and Kay Albertson pieced the start-up funds together from their own savings of some $5,000, and the couple borrowed $7,500 from her aunt. Joe also went into partnership with L.S. Skaggs, a former Safeway division manager, and Tom Cuthbert, an accountant to Skaggs.[26] They had assembled the funds needed to open a store and found a location, 1602 State Street, in a residential area of Boise.

Starting up a new business meant days and weeks of hard work just getting it ready to open. Then, once they had stocked the shelves, the doors unlocked, and with the first customers' arrival came long hours, lots of uncertainty, and all the time paying close attention to countless details. In preparing for the grand opening, he recalled, "I

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24 Polk's Boise City Directory 1939-1940 , pp. 11, 15-16.

25 Friedman, "Desire to Win."

26 Memories Joe Albertson, p. 2.

didn't go to bed two days before we opened our first store because nobody knew how to make ice cream and I had to stay up to do it." When the Albertson's Food Center opened its doors, store hours ran from 7:00 a.m. to midnight from the first day on. "There were some stores that were open that late, so we didn't want to pass up any opportunities to give service to our customers," Joe Albertson recalled. Starting early and closing late each and every day meant that the hours were long, with Joe Albertson "getting home at 1 a.m. and getting up at 4 a.m." to start all over again.[27]

In remembering those early days, a retired employee said: "When Joe hired me in 1939 from Safeway in Salt Lake, the Safeway division manager told me I was crazy to go with Joe. He said Safeway would have Joe out of business in 90 days." He and many other employees who started with Joe Albertson in the summer of 1939 stayed with him, and they recognized the elements of the store's success and made their own contributions to the growing prosperity of the food store and to Joe Albertson's empire. "Everybody thought Joe was wrong to build his store in a residential area, but with the 'Big Joe' ice cream cones, parking for 20 cars, and a lot of hard work, we got going."[28] And the customers came.

Joe Albertson and his staff provided good service to the customers, and they made that a priority from the very beginning. As he later recalled: "The three essential ingredients will be...dedication, performance and intelligence...and all three must be used all of the time!!!"[29] There was more to the success of the Albertson's Food Center than that one element: The store itself presented an image of attractiveness and efficiency. Albertson's Food Center was housed in an attractive one-story brick building. Windows lined the front wall and wrapped around to the parking lot, making the interior bright and

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[27] Ibid.

[28] Harold "Ole" Olofson, in Ibid.,, p. 8.

[29] Ibid., p. 31.

open. Customers saw the well-stocked shelves as soon as they drove into the parking lot. The store's offering loomed even larger as they found a parking space, locked the car doors, and walked toward the entrance. Parking was an important feature, and the Grand Opening advertisement told readers that "large parking areas have been provided on each side of the large, roomy building....Use this free parking and shop easily and leisurely." The store was open every day from 8:00 a.m. to 11:00 p.m.[30]

Full page advertisements announcing the "Grand Opening of Idaho's Largest and Finest Food Store, Albertson's Food Center," ran in The Idaho Statesman and The Boise Capital News. Next to the photograph of the new building was a sketch of the site, showing its location and stating clearly, "plenty of parking space." The ad told readers that "J.A. (Joe) Albertson Owner-Manager" was "no newcomer to Boise" where he had spent "most of his life" and then had gone to gain "experience in some of the largest and best food markets in both the Midwest and the Northwest." The text continued around a photograph of the young business owner and quoted his eagerness to open a grocery store in the Idaho capital. "I am very happy to be returning to the Boise Valley," he assured local shoppers. "Boise is the most pleasant and progressive community I have yet seen." Joe Albertson carefully chose the city and the location for his new Food Center, and his commitment to the area was strong. "I hope I may have the pleasure of serving many of you," he concluded. "I personally invite you to pay us a visit soon." The ad urged shoppers to "visit us tomorrow and see the very latest in modern food store arrangement and service."[31]

The personal touch of the Albertson's Food Center was also

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[30] "Grand Opening of Idaho's Largest and Finest Food Store, Albertson's Food Center," Idaho Statesman (July 21, 1939), and Memories Joe Albertson, p. 14.

[31] "Grand Opening."

reinforced to the shoppers: local newspapers contained advertisements and specials, as well as photographs of the department managers, those in charge of produce, grocery, bakery, meat, and ice cream. Joe Bates ran the Produce Department. After "a number of years" working in the "local grocery business," Bates joined Joe Albertson and was "personally in charge of what will perhaps be the most complete vegetable and fruit department in the city." William Kirk's Grocery Department offered "no less than 6000 grocery items...the most complete grocery stock ever assembled in Idaho," with most arranged for easy self-service. The other featured departments included the Bakery Department; the Meat Department, which provided "top-quality products and low prices"; and the Ice Cream Department, featuring "Dutch Girl Ice Cream," the "quality of which will be unexcelled." From the beginning, the managers were strongly identified with their departments and they took obvious pride in them.[32]

At Albertson's Food Center, the grocery department had the biggest inventory, the greatest volume of sales, and the largest amount of floor space. Along with the meat and produce departments, the three other departments offered a good variety of quality items, all well stocked and laid out for the convenience of the customer. Signs promoting different items were conspicuously posted, and these drew customer traffic, just as Joe Albertson had intended. The food displays were conveniently located for the customer, who easily saw what was available and were encouraged to pick the item up for closer inspection and placement into the grocery cart.[33]

The new Albertson's Food Center included innovative features, such as a scratch bakery that produced fresh baked goods throughout the day. The advertisement for the Grand Opening

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[32] Memories Joe Albertson, p. 14.

[33] See Gold, Modern Supermarket Operations, pp. 16-18.

featured the “Dutch Girl Bakery,” where “all the baking is done in the store and includes the latest in equipment.” No longer did the customer have to be at the store first thing in the morning to get the fresh baked goods. Throughout the day, the smell of baking bread drifted across the store, a practice later adopted by most supermarkets. Customers liked the smell of warm bread, fresh from the oven. The on-premises scratch bakery, run by Bakery Manager Steve Weigel, projected an image of quality and freshness for the market.[34]

The newly opened Albertson’s grocery store also had an automatic doughnut machine, hot buttered popcorn, and roasted nuts, all cooked fresh. A popular feature at the grand opening was the homemade ice cream cones, the “Big Joe’s” that sold for a nickel. Offering more than a dozen different flavors, the ice cream sold for 79 cents a half gallon. “We had 30 to 35 people [working in the store],” Joe Albertson recalled. “We opened our own Hot Spot Bakery at that time and made our own ice cream and were one of the first supermarkets in the country to have magazine racks, a popcorn machine and a nut machine.”[35] On their own, these were small details, but they went far in giving the customer a satisfying and comforting shopping experience.

Another popular feature of the first store was the Chicago beer. Placed in iced tanks at the front of the store, called the “Service Produce Department,” the beer came in 22 ounce bottles and sold at a price of two for 25 cents. It was featured in the Grand Opening advertisement. Albertson’s Food Center did a brisk business selling the beers, especially on paydays. Soon, Joe Albertson had to bring in railroad carloads of Chicago beer just to keep up with the demand.

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[34] “Grand Opening.”

[35] Memories, Joe Albertson, p. 3, 37. Charley Blaine, “Joe Himself Cuts Cake at Albertson’s Party on 40th Anniversary,” Idaho Statesman (August 2, 1979). “Albertson, Joseph A.,” in R.S. Beck, 100 Famous Idahoans (1989). Beebe, “Albertson: 1939 Principles Still Work.”

"They'd put them on their arms like firewood and walk out," he told The Idaho Statesman.[36]

Features such as the popcorn, the fresh baked goods, the well stocked "Service Produce Department," and, perhaps, most importantly, the attention to the needs of the customer by Joe Albertson and the helpful and friendly staff contributed to the store's success right from the start. Care for the customer and offering the customer the best service remained a source of pride for Joe Albertson, who later in life looked back at the first store and commented simply: "It was one of the most modern self-service markets in the country."[37] To keep prices down, Albertson's Food Center was from the beginning"strictly Cash and Carry." The Grand Opening advertisement stated that "there will be no phone orders and no deliveries. The results of these policies will be readily noticeable to you in bigger, better values."[38]

From the beginning, Joe Albertson operated his business on some simple but fundamental principles. One of the most important was "Give the customer good, friendly service and treat your employees like human beings," he explained to The Idaho Statesman years later. "Always have the product in the store. The customer must be ready and willing to buy and you have to price your goods so that customers are ready and willing to pay."[39] He also said, "If we are to do our best, then we must make an honest and true evaluation of ourselves. We must see our stores through the eyes of our customers. It is necessary to use all of the criticism we can uncover, then correct it with a supreme dedication of effort."[40]

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[36] "Grand Opening." Blaine, "Joe Himself Cuts Cake."

[37] "Joe Himself Cuts the Cake."

[38] "Grand Opening."

[39] "Joe Himself Cuts the Cake."

[40] Memories Joe Albertson, p. 37.

Joe Albertson's strategy and instinct for developing customer loyalty worked, as the steadily increasing revenues confirmed. "The dream I had at that time was, in that one store, to gross a million dollars a year in 1940," he later told an interviewer. "From the time of opening to the end of 1939, we were running at the rate of $600,000 annually – which is $12,000 a week."[41] Business was in fact so good that Joe Albertson and his partners decided to expand already before the end of their first year in operation. "The reason for making that decision was that from July 31, 1939, to the end of the year we made what we considered to be good profit," Joe Albertson commented. "So we made up our minds to open the second store in Nampa. Nampa was a logical town, only 18 miles away, and in a good area, and close enough so we could control it." The second Albertson's food center opened its doors on the morning of June 13, 1940, in Nampa.[42] Over the next several years, Joe Albertson opened more stores in Boise. [43]

Once again, his judgment and sound business instincts proved correct. The customers came as eagerly to his Nampa store as they did to the first Albertson's Food Center in Boise. The same principles of good service, offering a broad selection and high quality products proved to be a winning combination. These successes led Joe Albertson to open a third store in Caldwell on November 5, 1940. Many of the goods and products for the two new stores came through Boise. The ice cream, for example, that sold well in all the stores was made in the back of the Boise food center, and Joe Albertson himself drove it to the other outlets in his Plymouth Coupe. [44]

While these stores were getting established and building a customer base, Joe Albertson spent a lot of time driving among the

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[41] Friedman, "Desire to Win," p. 18.

[42] Ibid.

[43] Polk's Boise City Directory 1941, p. 26.

[44] Ibid. Harold Olofson, in Memories, Joe Albertson, p. 8.

three locations, monitoring the operations and making sure that the stores were being run exactly the way he wanted and had intended. "I drove that road from Boise to Nampa to Caldwell several times a week," he recalled. "Sometimes every day, and sometimes more than one round trip a day. It got so, I think I could have that old road blindfolded." [45]

Joe Albertson's supermarket empire began growing on the eve of the Second World War, an event that forced thousands of stores across the nation to close their doors. Grocery store construction came to an abrupt halt, and obtaining products for the markets' shelves became harder and harder, as meat, sugar, and canned goods were rationed. Joe Albertson's company moved along steadily, however, and sales remained at about $1.5 million a year. [46] During the war, though, the Albertson's Food Centers did their part too, promoting War Bonds and sponsoring scrap drives to collect aluminum, steel, fats and paper. Operations of Joe Albertson's markets during the war echoed the slogan adopted by Super Market Merchandising: "Thrift is no longer a private virtue--it's a patriotic duty." [47]

One of the most significant events of the war years for Joe Albertson came in 1944 when the partnership with L.S. Skaggs and Tom Cuthbert was dissolved. In December 1945, Albertson's Corporation was formed. Following the end of the war, Joe Albertson continued his expansion, and he now moved the company into new areas. He began to look at the markets in the neighboring and nearby states. In 1947 or 1948, he outlined his plans for putting stores in

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[45] "Friedman, "Desire to Win," p. 18.

[46] "1992 Annual Report Albertson's." Blaine, "Joe Himself Cuts Cake." Zimmerman, The Supermarket: A Revolution in Distribution, pp. 131-135.

[47] Memories Joe Albertson, p. 3. Quoted in Zimmerman, Ibid., p. 133.

Oregon, Washington, Montana, California, Nevada, and Utah.[48] His supermarket empire was beginning to grow.

Reflecting the massive, nationwide expansion of the supermarket industry, Joe Albertson and his company opened new stores in other western states, all the while remaining true to the principles that guided the success of the first Albertson Food Center. A key element of the success of Joe Albertson and his food stores continued to be the attention to good service, customer needs, and a broad selection of the finest quality products available. Joe Albertson also remained acutely aware of the marketplace which for supermarkets was changing dramatically during these years.

The decades of the 1940s and the 1950s brought new challenges and opportunities to the grocery industry, including a revolution in packaging which proved to be the most enduring. "The biggest changes in my lifetime are, I suppose, from bulk to small packages, and from bulk ingredients to prepared items," Joe Albertson told a reporter. "I remember, when I started, 48 and 98 pound sacks of flour were big items in food stores--when people baked their own bread. Dry yeast foam was a big item; I doubt if many stores carry it today [1969]." Other changes came then, too. Back when he opened the first store, "one hundred pound sacks of sugar were common," he told an interviewer. "If customers wanted less, they would be broken down in Kraft bags. That was a chore we had to do at night."[49]

Joe Albertson recalled other developments. "The shift has been entirely to the package complex," he stated in 1969. "Today, for example, there are probably more than 100 kinds of packaged cake mix. I remember when lard was sold out of 500-pound wooden barrels and when we sold bulk sauerkraut, bulk peanut butter, coffee came in 100 pound sacks of roasted beans and we had to grind it." Finally, "The change in products has been tremendous - so has the

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[48] Ibid., pp. 3, 12.

[49] Friedman, "Desire to Win," pp. 1, 18.

change in packaging. The food stores today, compared to 1939, have five to six more times more items on display."[50] The shift to prepacked meats and produce, namely fresh fruits and vegetables, was of fundamental importance for Albertson's and the rest of the super market industry. Prepacking reduced the congestion at, for example, the meat counter, and that translated into higher sales. The prepackaging of dairy products, particularly cheese, began in these years and spread widely. [15]

The foundations laid during the war and the careful, sustained and well-directed growth meant that Joe Albertson and his small supermarket chain was poised and ready to grow rapidly as soon as peace, prosperity and stability returned to the country.

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[50] Ibid.

[51] Zimmerman, The Super Market: A Revolution in Distribution, pp. 145-147.

CHAPTER 3

“WE HAD FULL CONFIDENCE”
GROWTH, EXPANSION, AND GOING PUBLIC IN THE 1950s

Emerging from the Second World War, the American economy faced several years of tough times and difficult readjustments. By 1950, the economy was ready to take off again, and in many ways, the coming decade experienced a revolution in the supermarket industry. Between 1952 and 1959, supermarket sales grew by 69 percent, and the number of outlets more than doubled, from 16,540 to 32,000. The size, format and scope of them changed as well, as the supermarket industry went through far reaching changes. At the beginning of the decade, most grocery stores looked much as they had 10 or 20 years earlier, offering a limited number of food products. By the end of the decade, that had changed. [52]

Now, in the years following the war, self-service was widely adopted, as stores recognized that the housewife, the member of the family who did most of the grocery shopping, had less time to wander through the grocery store. Supermarkets remodeled the stores and offered more self-service throughout, particularly in perishable items, such as dairy products, fruits and vegetables, meats, and even frozen foods which were now coming into the markets. Having more departments go to self-service saved the stores on labor costs and kept customers moving, now that they did not have to wait for the butcher to cut and wrap their order. Although cautious at first about the quality of pre-packaged meats, customers were won over by the stores’ commitment to quality. Stores also brought in shiny new and more efficient cases that kept the meats fresher. Packaging also improved with new plastic wraps and machines for weighing and wrapping the cuts of meat almost simultaneously.[53] In addition,

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[52] “The Fifties: A Proving Ground,” Progressive Grocer (December 1988), p. 135.

[53] Ibid. Gold, Modern Supermarket Operations, pp. 20, 24, 52.

supermarkets began to carry cosmetics and over-the-counter drugs, thereby saving the shopper more time and increasing the store's revenues. [54]

As the journal, Progressive Grocer, commented on the 1950s, "dedicated retailers, wholesalers and manufacturers offered their time and talent to refine and develop this burgeoning industry. They created new products, implemented merchandising schemes and fostered technological growth to make the supermarket industry what it is today."[55] And one of the leaders was Joe Albertson.

Joe Albertson and his managers recognized the trends and developments, and they responded quickly and efficiently. The market of the 1950s was a whole new world, with new products, better packaging and heightened competition. In 1952, for example, one of the leading trade magazines, Progressive Grocer, reported that business is "no longer...moving confidently ahead." Even though the retail trades were "comparatively stable," the magazine reported that "The food trade continues to be one of the brightest spots in present retailing, with gratifying increases over this time last year." [56]

One analyst of the food trade wrote in 1952 : "For the 13th successive year retail grocery stores rolled up large sales increases," and food sales alone gained some $4 billion from 1951 to 1952 as total sales reached $32 billion.[57] In spite of these overall gains, it was a tough market, and Albertson's Inc. needed to remain highly competitive in order to continue growing and expanding. During the early 1950s, for example, the number of large supermarkets

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54 "The Fifties," pp. 134-135.

55 "The Classic Years: 1950-1960," Progressive Grocer 67 (December 1988), pp. 69, 74.

56 "Business Highlights," Progressive Grocer 31(June 1952), p. 43.

57 Carl Dipman, "Survey Shows Record Sales, Stiff Competition, Larger Stores for Grocers," Progressive Grocer 31(March 1952), pp. 42-48.

increased, competition stiffened, and the drive for volume sales became even more important. Albertson's added stores in these years and used a variety of means to boost sales. Stores, including those run by Joe Albertson, for example, moved away from the "Every Day Low Price" slogan to weekend specials, promotion stunts, giveaways and even coupons. [8]5

To capitalize on these changes, to remain competitive and profitable, and to continue its pattern of controlled and steady growth, Joe Albertson's company had to be alert to the new trends, to new technology, to cost-cutting measures that benefitted the customer and the company's bottom line. Some areas in the supermarket showed marked gains in sales, and Albertson's Inc. was quick to respond. In the early 1950s, the gain in sales of frozen foods, for example, achieved record levels, rising by more than 40 percent from 1950 to 1951 alone. In part, this came from the rapid introduction of new items, especially frozen fruit juices with quick frozen orange juice leading the way. As Progressive Grocer commented, the "astronomical sales increase" came because it was "good-tasting, nutritious," and convenient to buy and to use.[59]

Another new item that hit the shelves in 1954 was G.A. Swanson & Sons' frozen turkey dinner, the original "TV Dinner," a prepared meal served up in an aluminum tray. Soon, because of these new dinner options, the sale of frozen foods outpaced frozen juices. The frozen meals provided consumers with a main course and two side dishes and simply needed to be heated in the oven and served. The ready made meals were just what the busy couple needed - a dinner that only had to be heated in the oven. As these ready-to-eat dinners gained in appeal to the shoppers, more and more stores bought new equipment, multi-deck cases and glass doors which kept the products colder and made them easier to see.

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[58] Ibid., p. 47.

[59] "The Classic Years," p. 136.

Retailers soon gave frozen foods and juices more space and came up with new strategies for marketing them. And convenience remained a big factor.[60] The gains came quickly, and 1951 was heralded "as the best year so far in the history of frozen foods." As Progressive Grocer wrote, "during that year, retail sales of frozen foods zoomed at an unprecedented pace." Predictions were for still more gains in 1952 and for the next several years, thereby providing expanding markets for Joe Albertson's grocery store empire.[61]

The predictions held true, and in 1953, grocery sales shot up by over five percent, with total food sales reaching more than $41 billion across the nation. In addition, the overall trend reflected the forces that helped push Albertson's ahead, namely greater sales in larger stores and declining sales in small stores.[62]

During this period, the decade following the end of World War II, another fundamental change was taking place: the number of grocery stores continued to fall. The peak had been reached in 1947 when returning soldiers went back to family grocery stores or they opened their own. Since then, however, the number dropped steadily with the small grocery stores folding and closing their doors far more often than the large ones. Still, the number of new supermarkets, the kind of mega-store pioneered by Joe Albertson grew. Store modernization and expansion became more significant in the mid-1950s. [63]

A number of other fundamental shifts in the grocery store

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[60] Ibid., pp. 136-137.

[61] Joseph J. Trout, "Frozen Food Sales Up 40%—And Still Growing!", Progressive Grocer 31(June 1952), p. 60. Gold, Modern Supermarket Operations, pp. 52-55.

[62] Carl W. Dipman and Robert W. Mueller, "Grocery Store Sales Up 5.5% in 1953—More Business Goes to Larger Stores," Progressive Grocer 33(March 1954), pp. 44-45.

[63] Ibid., pp. 46-47.

industry also emerged at this time, and once again, Joe Albertson and Albertsons' Inc. were in the forefront. Now, more than ever, location of each supermarket was paramount. He and his company carefully chose the placement of individual stores, selecting locations that offered not only growth, but also a place where a large store could be built with ample parking. Joe Albertson recognized early on the significance of the shopping center, just beginning to make its appearance in American suburbs, and in 1951 opened the company's largest store to date: a 60,000 combination food and drug store in a shopping center.[64]

The time was right--in postwar America, young married couples with growing families lived farther and farther from the center of town and did more of their shopping with the car, often in one of the new shopping centers. Also, by the mid-1950s, seven out of ten men shopped in a supermarket at least once a week.[65] For these families, the ease of parking became as important as convenience in grocery shopping. Now, more and more people went shopping later in the day and even into the evening because they had only one motor vehicle which the husband typically drove to work. Extended hours became, therefore, more important as either the spouse or the couple did their grocery shopping with the car. [6]6

During these years, Albertson's Inc. responded quickly to the changing market, adopting tactics that kept it near the forefront of the industry's growth. In the area of frozen foods, for example, display space increased, display improved, and merchandising improved at the Albertson's grocery stores. This market gained in part not only

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[64] "The Classic Years," p. 138.

[65] Ibid.

[66] "Our Company. Albertson's 1950," www1.albertsons.com. See, George E. Kline, "'There's Big Volume In Shopping Center Locations," Progressive Grocer 33(March 1954), pp. 64-76. Gold, Modern Supermarkets, pp. 165-172.

because of a spurt in the sale of freezers, but also because the price of frozen foods held steady.[67] Along with frozen foods, the sale of ice cream, long a Joe Albertson favorite, grew rapidly in the early 1950s. Ice cream was recognized by industry analysts as a "mighty profitable item," and new care was given to proper display and careful marketing.[68] The same kind of care that Joe Albertson had long put into his stores meant that his chain was sure to gain from such changes as the surge in the sale of frozen foods.

The gains of the early 1950s in food retailing, prompted by changes that Joe Albertson and his company helped spearhead, were so striking that other stores "began in earnest to emulate the merchandising ideas and methods that have done so much to increase sales and cut costs for food retailers," Progressive Grocer stated.[69] The success in marketing led to a better than seven percent gain in sales for Joe Albertson's Boise-based chain. Whereas an increase in the price of retail foods had sparked the increase in sales following the Second World War, the gain came now from overall improved sales, boosted by the consumers' enthusiasm for frozen foods and non-food items, whose sales shot up in the 1950s by more than 700 percent. Beauty goods, household items, drugs and toiletries sold briskly and with a average gross margin of 31 percent enabled retailers to boost profits while keeping food prices tight.[70] Confidence was not universal, however, as supermarket operators

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[67] Ibid., pp. 60-61, 133-4. Carl Dipman, "Better Take a Good Look at the Freezer-Food Business," Progressive Grocer 31(July 1952), pp. 88, 152-154.

[68] Carroll Chouinard, "Are You Selling All the Ice Cream You Should?", Progressive Grocer 31(June 1952), pp. 68-69.

[69] Carl W. Dipman and Robert W. Mueller, "Food Stores Led All Other Retailers in 1952 Sales Gains," Progressive Grocer 32(March 1953), p. 37.

[70] "The Classic Years," p. 138.

faced mounting competition from new stores. Only a few years earlier, the supermarket had been a novelty, and in most communities, had little or no competition from other supermarkets. By 1952-1953, that had begun to change. Once again, Joe Albertson acted and pushed his plans for expansion into new areas and the opening of new supermarkets steadily ahead.[71]

By the mid-1950s, most communities in the nation had a choice of several supermarkets, and that fact made the placement, the location, of a new store and its offerings all the more important. Now, more than ever, the promotional and merchandising skills and ingenuity of Albertson's Inc. gained importance. After all, the physical plant of most stores remained largely the same, as did arrangement of items and pricing. Recognition of the value of merchandising and customer service to a store's bottom line led Progressive Grocer to report in 1953 that "greater realization of the importance of store employees and store personality will pay substantial dividends in added sales and profits in there period ahead."[72] These are the hallmarks of Joe Albertson and his company.

Joe Albertson and his top management had long paid close attention to the needs of the customers, and they made this a key element in the operation of the individual stores. This emphasis on the personal touch continued. At Joe Albertson's stores, customers were greeted by clerks as they entered. Children sent by their parents to pick-up some special or needed items were assisted readily. At the rear of the store, meat cutters worked but they also came out of the back room to be available and to explain to customers the many different cuts. They continued to do this even after packaged meats and self-service was introduced. Bringing the meat cutters out into the store improved customer service and satisfaction. Such attention to seemingly minor details went far in

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[71] Ibid., p. 43. Gold, Modern Supermarket Operations, pp. 97-100.

[72] Dipman, "Food Stores Led Other Retailers," pp. 37-39.

building customer loyalty.

Another customer friendly technique that boosted sales was the practice of stocking shelves at levels that enabled customers not only to see the item, but also to reach it conveniently. This meant that selecting an item and placing it into the grocery cart was easier. Through seemingly small gestures, the customer service at Albertson's continued to be emphasized, just as it had since the first store opened in 1939. "Convenience, price, attractiveness don't mean a thing to a customer if she doesn't like the way she's been treated in a store," an analyst wrote in 1953. "Customers keep coming back to the store that treats them well. It's the little things that make a shopper feel well treated, and invariably, shoppers will keep coming back to the store that gives them that feeling." [73]

The gains at Albertson's and the steady expansion of his empire also resulted from good management at all levels, from the corporate decision makers in Boise and reaching down and outward to the local stores and departmental managers. Joe Albertson opened new corporate headquarters adjacent to the original food center in downtown Boise with specialized departments for advertising, public relations, administration, accounting, supply, and training. An effective training program for managers soon developed. The careful division of labor -- the focus and responsibility of the individual departments -- highlighted the emphasis of the corporation on customer service and also called for attention to such details as well stocked shelves and top quality products. Tests conducted in the early 1950s showed that "Substantially higher sales can be achieved merely by keeping grocery shelves and refrigerated cases fully

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[73] On customer service, see Joseph J. Trout, "Eight Ways to Keep a Customer Coming Back," Progressive Grocer 32(May 1953), pp. 48-51, and Gold, Modern Supermarket Operations, pp. 122-130. On store management, see "Nine Steps to Good Management—And Better Profits," Progressive Grocer 32(May 1953), pp. 52-53.

stocked throughout the week,"[74] and at the Albertson's stores, that meant products of high quality at the best prices for the consumer.

Smart retailers, like Joe Albertson, had long recognized this, organizing and operating their stores accordingly, and as a result, they made handsome profits. In fact, they knew that keeping the shelves holding impulse items well stocked meant that the sales of these increased even more. Another important feature in boosting sales was the end-aisle display, the massing products at the end of aisles in high traffic sections of the store. Typically, these displayed the higher priced items, because the shopper pulled them off these shelves quicker than in other parts of the store.[75] In practice, though, keeping the shelves well stocked was not an easy task. Store managers had to keep track of virtually every product, a task made more demanding, more difficult, and more important as the store grew in size and diversity. Store management demanded more time and energy, and this was true in every successful grocery outlet.

Along with keeping tab on shelf stocking, store managers and Albertson's company headquarters had to keep close watch on pricing. What those in the industry called the "right price," the price of an item that brought the most sales and consequentially the most gross dollars, was a matter of crucial importance. The task for Albertson's managers was to identify the "right price" for every item in the store and to do so with care. That was of far greater importance for some items than others. For example, the consumer paid more attention to the prices of staple items purchased on a regular basis than to impulse or seasonal goods. The stores in the Albertson's chain had to make sure that the staples, as an analyst wrote in 1953, were priced competitively for the particular local market. The

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[74] Robert W. Mueller, George E. Kline, and Joseph J. Trout, "Customers Buy 22% More When Shelves Are Well Stocked," Progressive Grocer 32(June 1953), p. 40.

[75] Zimmerman, The Super Market: A Revolution in Distribution, pp. 205-207, 216-217.

reputation of low prices and good customer service became even more important as competition increased. [6]7

The mid-1950s marked the expansion of prepackaged produce, and this, too, helped grocery stores, especially those operated by Joe Albertson, to increase sales even more. The switch in many stores from the traditional direct service produce department to full on self-service of prepacked meats and produce led to impressive sale gains. Prepackaging, as Progressive Grocer pointed out in July 1954, led to:

1. Increased produce sales.
2. Increased overall store sales.
3. Increased total gross margin on produce sales.
4. Increased total gross margin on produce sales.
5. Increased the produce department's share of total store sales.
6. Increased the shelf life of fresh fruits and vegetables.
7. Increased produce department efficiency.
8. Decreased produce department labor expense.
9. Decreased spoilage and markdown losses.
10. Sped customer traffic through the produce department.
11. Added net profit dollars to their overall operations.[77]

With prepackaging, as with the other areas that boosted sales in the mid-1950s, attention had to be given to these details, and that meant store managers had to assume more responsibility. Successful prepackaging followed certain guidelines. For example, only top quality merchandise should be wrapped, and a consistently high level of quality was imperative. Careful packaging depended on the correct grading of produce, and that also meant that the size, quality, and price remained consistent. Packaged items needed to be

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[76] On the issue of the "right price", see "Want a Reputation for Low Prices?", Progressive Grocer 33(January 1954), pp. 34-37. Gold, Modern Supermarket Operations, pp. 75-82.

[77] George F. Kline, "Tests in Sixty Stores Prove Prepackaging Lifts Produce Sales, Margins, Profits," Progressive Grocer 33(July 1954), p. 41.

sold at the regular price, thereby not alarming the customer. Also, produce managers now had to keep even closer track of the items, and daily records were imperative.[78]

All of these features aided Joe Albertson and the rapid expansion of his supermarket empire as the company responded to new trends and the quickly changing marketplace. Also important to offering new items, such as frozen foods and a range of household goods, were store remodeling and modernization. Not only did this keep the look of his stores fresh and efficient, it meant an increase in store volume without an increase in the selling area.[79]

By the late 1950s, Joe Albertson's supermarket empire had grown to number 52 stores, one department store, and three drug stores, spread across Idaho, Washington, Utah, and Oregon. The expansion had been steady and methodical, as the company financed the growth through loans and its own financing. Now it was time to reach for even greater heights: in September 1959, the company went public. "There are many reasons. In my thinking, one reason is to develop more capital for operations," Joe Albertson explained. "But in our case the motivating factor was to establish a value on the business. It's valuable to have a public market."[80]

According to the announcement of the issuance to the public of an initial offering of stock in the corporation, J.A. Hogle & Co. of Salt Lake City was the underwriter of the 300,000 shares of Class B common stock. The offering aimed to raise $3,036,000 for financing "from 16 to 21 new supermarkets in 1959 and the forepart of 1960."

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[78] Ibid. Zimmerman, The Super Market: A Revolution in Distribution, pp. 229-233.

[79] On the benefits of store modernization, see "Modernization Lifts Sales From $9000 to $15,000 a Week," Progressive Grocer 33(March 1954), pp. 80-84, 89.

[80] "300,000 Shares Offered In Expansion at Albertson," Supermarket News (September 28, 1959), p. 18. Friedman, "Desire to Win," p. 18.

The shares went quickly, and all were sold within a week. Under the terms of the issuing, 100,000 shares were reserved for employees, officers, and directors of the corporation at $10.12 per share. The 200,000 other shares went at a price of $11.00. [81]

The stock prospectus described a company, led by capable managers, with a long record of profitable years. Net sales for the year ending March 28, 1959, amounted to $67,578,169, with a gross profit of $15,228,542, and a net profit of $899,536, or 1.3 percent of sales. Over the next several months, sales and income continued to grow, with net sales rising by June 27, 1959, to $19,910,414, up from $16,350,955 from the previous year. Net income rose from $263,337 to $461,448. [82]

The prospectus on the stock offering provided some insight into the ambitious expansion plans of the Albertson's corporation. The company planned to open five new markets in Portland, Oregon, its first inroads into that area. Other areas targeted included Ogden and Logan, Utah; Helena, Montana; Vancouver, Washington; Salem, Oregon; and Salt Lake City. All of the new markets were to be in the 22-23,000 square foot range, except Billings and Great Falls which would contain 60,000 square feet. According to the expansion plans, the stock offering would enable Joe Albertson to increase his empire to some 67 stores by March 1960. [83]

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[81] "300,000 Shares Offered."

[82] Ibid.

[83] Ibid.

CHAPTER 4

"IT TAKES GUTS TO BE SUCCESSFUL"
NEW VENTURES AND GROWTH, THE 1960s

During the 1960s, the Albertson's Inc. moved forward on a number of fronts, and the supermarket empire founded by Joe Albertson expanded steadily, driven by a strategy that combined the purchase of other small chains with an energetic program of new store construction. The opening of its 100th store, a landmark event, came in 1963 in Seattle. A year later, the company made its first big step into the lucrative southern California market when it purchased a 14-store chain based in Los Angles.[84] In addition, Albertson's launched a joint-venture with Skaggs Drug Centers (Salt Lake City) in 1968 with the intention of operating large food-super drug store combinations in Texas, thereby venturing into a new area of the business.[85] Other changes took place at the corporate headquarters in Boise where, for example, the computer system was upgraded as management strived to keep on top of the changing market and to remain well informed and fully up-to-date on the details of individual store operations. Long range planning also defined the objectives of this rapidly growing supermarket chain.

Throughout the decade, Albertson's Inc. continued to grow, with the number of supermarkets increasing from 68 in 1959 to 76 just a year later. By the end of the 1960s, the company had more than 8,500 employees working in more than 200 stores spread across nine states. In 1961, the Albertson's chain also included six drug centers and two department stores and it had a presence in five western states. Sales rose from the previous year by almost 18 percent, from $89,317,000 to $105,288,000. With these figures, Albertson's bucked a nation-wide trend, for according to Supermarket News, "leading supermarket chains' ration of profit to both sales and net worth

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[84] "Our Company. Albertsons 1960," www1.albertsons.com.

[85] Friedman, "Desire to Win," p. 18.

declined in 1960 for the third year in a row."[86] In the annual report to stockholders, Joe Albertson stated: "Notwithstanding substantial opening expenses, the general economic situation and the 1960 competitive struggle resulting in tight profit margins, the company realized a 13.9 per cent increase in net profit after taxes or 67 cents per share." Net income for the fiscal year ending in April 1961 was $1,141,682 compared with $1,003,155 for the previous year.[87]

At the June 1961 annual meeting, Joe Albertson outlined to shareholders his plans for the future. During the next fiscal year, he anticipated that the firm would be operating 90 retail stores with net sales of $120 million. Corporate plans called for the opening of eight new food centers and four drug centers. His optimism was echoed in the annual report which stated: "With a successful operating background behind us, the company has determined that combination food and drug units are desirable companions for solo locations." Such units were planned for Richland, Washington, and Missoula, Montana. One was under construction in the Cottonwood center in Salt Lake City. "Several new size stores were completed in the past 12 months in an effort to build stores to fit the locations rather than find sites to fit the stores," the annual report noted. "In the current fiscal year, this sizing plan will be continued with some units ranging from 12,500 square feet, several in the 16,200-square-foot size and others up to 20,800 square feet. Combination units will vary from

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[86] Arthur A. Werfel and George Lieberman, "Chains' Profit-Sales Ratio Off 3rd Year," Supermarket News 10(July 10, 1961). "Sales at Albertson's Climb 17.9%, Net 13.9%," Supermarket News 10(June 12, 1961). Curt Kornblau, "Facts About New Supermarkets Opened in 1962," Progressive Grocer (March 1963), pp. 78-79, 115-118.

[87] "Our Company. Albertson's 1960." Joe Albertson is quoted in "Sales at Albertson's Climb 17.9%."

30,000 to 60,000 square feet." [88]

The combined food and drug centers developed by Joe Albertson contained about 28,000 square feet of selling space, with just less than half devoted to drug items. As Supermarket News described the store, "The center's objective is to provide one-stop shopping for basic supplies. In the drug area also is a complete line of cosmetics, camera equipment and supplies, sporting goods, household, hardware and paints and basic dry goods, baby apparel and accessories." The two components, the drug store and food center, were joined by a common lobby in the front of the store, thereby offering an attractive and welcoming space for customers who immediately recognized that they could take care of additional needs other than grocery shopping under the same roof. [89]

In 1960, Albertson's Inc. "announced plans for continued expansion" in the Portland area where two supermarkets had opened a year earlier. The corporate plan called for at least one store in Portland and two more in suburban Beaverton. The company expected to build four to six additional stores in Portland and several more in the region.[90] Albertson's first entry into the Oregon market came in October 1959, and by early 1960, it had two markets operating in the Portland area and three more under construction. Another store in Eugene was scheduled to open July 1st. According to district manager William Workman, Albertson's planned to build

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[88] Quoted in "Sales at Albertson's Climb 17.9%." In 1963, grocery store sales climbed more than 5% over the previous year; see, Robert W. Mueller, "Grocery Store Sales Reach $56.2 Billion," Progressive Grocer (April 1963), pp. 37-45.

[89] "Albertson's 7th Food, Drug Unit Opens In Pacific Northwest, Plans 4 More," Supermarket News (September 18, 1961). See, Gold, Modern Supermarket Operations, pp. 56-61.

[90] "Big C Set to Invade Albertson's Home Grounds," Supermarket News (January 11. 1960). "Albertson to Open Super in Portland," Supermarket News (May 23, 1960).

markets in "every Oregon city of over 15,000 population 'as a starter'."[91] The move into the Oregon market also involved acquisitions, with Albertson's Inc. purchasing the Spokane Pay Less Drug Stores, a two-unit firm, in October 1961. A third Albertson's drug center opened on October 16, 1961, one of the four planned. [2]9

This wave of growth and expansion showed that top management at Albertson's continued to be optimistic about the future. The widespread optimism was reflected in corporate planning. In a January 1961 speech in Seattle, the director of advertising announced that Albertson's expected to grow to 160 stores with sales of some $200,000,000 within the next five years. At the time of his speech, the company operated 70 food markets, six drugstores, and two department stores, with most concentrated in or near the cities of Seattle, Tacoma, Portland, Spokane, Boise, and Salt Lake City. The ambitious plans called for the "saturation of the Northwest in the next two years with new stores in Washington, Oregon, Idaho and Utah." The next step would be to expand beyond these states into Colorado, Arizona, and California. Also part of the strategy was the introduction of as much automation as possible in order to reduce handling costs at these new centers. [3]9

The plans for steady expansion, developed at the corporate headquarters in Boise, involved new stores and the acquisition of other stores. In September 1961, Albertson's purchased the three-unit Food Commissaries of Casper, Wyoming, bringing the number of stores in the Albertson's chain to 73. "The purchase also adds

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91 "Albertson Buys Eugene, Ore., Site," Supermarket News (February 8, 1960). "Albertson's Will Continue Department Store Expansion," Supermarket News (February 15, 1960).

92 "Albertson's Buys Pay Less Drug Firm," Supermarket News (October 16, 1961).

93 "Albertson's Plans to Add 82 Units Within 5 Years," Supermarket News (January 23, 1961). "Safeway Leading Chain In Salt Lake, Survey Finds," Supermarket News (August 1, 1960).

Wyoming to the firm's trading area," Supermarket News wrote.[94] At the same time, the company acquired additional drug and food centers and opened its seventh in September 1961 in Richland, Washington.

In the early 1960s, Albertson's operated a chain of drug and department stores in Utah, Wyoming, Idaho, Montana and eastern Washington. Controlled and sustained growth meant cutting those operations, closing individual stores or even selling one of its chains, that were not meeting financial goals or expectations, or those that held too large a percentage of the corporation's capital. Corporate headquarters responded decisively to the constantly changing market. "The firm's concern for high return dictated sale of this chain in 1963, feeling it was unwise to tie up one-third of its capital in an operation that accounted for only 10% of the company's total sales," wrote Barron's magazine. [5]9

Along with steady growth came innovations in sales and marketing at stores throughout the Albertson's empire. In January 1961, for example, Supermarket News observed: "An outstanding job in merchandising housewares is being done here [Seattle] by Albertson's Food Centers, a corporate chain organization, with seven Seattle stores, four units in the areas near or adjacent to Seattle, and three in the nearby city of Tacoma." The newer units each contained 22,000 square feet, with about 4,000 of this given over to the selling space for housewares. There was good reason for this shift--in the mid 1950s the housewares sections did about five percent of the Albertson's chain business each year. By 1960, the figure had risen

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[94] "Albertson's Buys Casper, 3-Unit," Supermarket News (September 4, 1961).

[95] "Rebound in Store at Albertson's As Food Chain Tightens Operation," Barron's (March 31, 1969).

to between 10 and 13 percent. [96]

Steady and sustained growth in sales and revenue meant that the corporation continued to expand, and acquisitions continued to be central to the growth plans of Joe Albertson and his top management. In June 1964, the company announced its intentions to acquire Greater All-American Markets, Inc., a supermarket chain based in Downey, California, that operated 14 food markets in Los Angeles and Orange County.[97] According to the announcement, Albertson's would offer "in the range of" one Albertson share for five shares of Greater All-American. The Wall Street Journal reported that Albertson's earned $2,507,686 or $1.46 a share in 1963 on total sales of $162 million. The figures for Greater All-American showed earnings of $112,025, or 16 cents a share on sales of $27 million. The stock of each company was traded over the counter, with Albertson's going for $20 and Greater All American listed at $4.75. [98]

Upon the tender offered by Albertson's, the merger was recommended by the boards of Albertson's and Greater All-American. The deal hit a snag when a major shareholder of the smaller firm told The Wall Street Journal that he opposed the merger. John H. Irwin, former executive vice president and a major shareholder of Greater All-American, called the terms "inequitable" to shareholders, and stated that "Albertson's shot is at an inflated price while All American has been depressed." Other shareholders did not listen too closely. At a special meeting, held on July 14, 1964, they voted to merge with

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[96] M. Blake Smith, "Albertson's Chain Scores With Housewares Setup," Supermarket News (January 9, 1961). Ralph Friedman, "Albertson Div. Pushes Electric Housewares," Supermarket News (December 11, 1961).

[97] "Greater All American Shareholder Opposes Merger With Albertson's," Wall Street Journal (June 16, 1964).

[98] "Albertson's Plans to Acquire Greater All-American Chain," Wall Street Journal (May 5, 1964). "Albertson's Votes Acquisition," Wall Street Journal (May 15, 1964).

the Boise based firm. Irwin's proxy battle had failed. [9][9]

After this struggle, Albertson's top management continued to look at the big California market for expansion and acquisition possibilities. Less than a year after taking over Greater All-American, J.L. Berlin, president of Albertson's Inc., announced on August 19, 1965, that his company had acquired Oakland based Semrau & Sons Food Centers, a six store chain (with two more stores under construction) for $2,340,000. The agreement called for Albertson's to provide 45,000 shares of its new common stock "in a pooling-of-interests agreement as soon as issuance of the new stock is approved by the California corporations commissioner." Albertson's common stock was trading over the counter with a bid of $52 a share.[100] Expansion in the California market continued, and Albertson's announced on March 22, 1966, that it would build jointly with Skaggs Pay Less Drug Stores a $3 million store in Anaheim.[101]

The acquisition of Semrau & Sons raised the total number of Albertson's food centers to 142, all located in the eight western states. With an estimated annual volume of sales at $21 million, the Semrau stores operated in northern California under the Pay Less name. According to the purchase agreement, these stores continued to operate under the Pay Less name but functioned as part of the Albertson's northern California district. Albertson's president announced following this acquisition plans to open another 22 Pay Less stores in the next two years. The acquisition program continued at a brisk pace. In 1967, Albertson's purchased eight supermarkets in the Denver and Colorado Springs areas from Furr's Inc., a Lubbock, Texas, based company. That acquisition raised the number of stores

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[99] "Greater All American Holders Vote to Merge."

[100] "Albertson's Pays $2,340,000 In Stock for Grocery Chain," Wall Street Journal (August 19, 1965).

[101] "Skaggs and Albertson's Store," Wall Street Journal (March 22, 1966).

to 196. The Boise headquarters of Albertson's announced that it planned to open another 18 by April 1968.[102]

Expansion continued to be steady and deliberate, and by mid-1969, Joe Albertson's Boise based supermarket empire operated 214 stores throughout the West. In June 1969, Albertson's president described to shareholders the next wave of expansion, and he announced that the company had budgeted some $9 million for capital expenditures and leased real estate. Six of the newly planned stores were to be grocery-drug combination units, operated in Texas under a joint venture with Skaggs Drug Centers Inc. of Salt Lake City. The company president also told shareholders that Albertson's expected annual sales of $800 million within the next five years.[103]

The program of steady expansion resulted in rising sales throughout the Albertson's supermarket empire, and that meant continuing corporate success and profit. In early 1966, J.L. Scott, president of Albertson's Inc., told The Wall Street Journal that the company's sales in the year ending on March 26th "will exceed $271,000,000," a 19 percent gain from fiscal year 1965. Scott added that he was "very pleased with the current year's results."[104]

The spurt of growth in the mid-1960s provided additional benefits for shareholders as well as the corporation. In a March 1965 interview, top Albertson's executive, James L. Berlin, stated that the food chain expected to increase its annual dividend rate from 60 cents a share to about 70-80 cents per share. The company policy was, he announced, to pay one-third of earnings to shareholders as dividends, and therefore, "We will have to increase the dividend this year." Berlin also told analysts that Albertson's expected to earn

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[102] "Albertson's Pays $2,340,000." "Albertson's Inc.'s New Supermarkets," Wall Street Journal (August 5, 1967).

[103] "Albertson's Inc. Plans to Open," Wall Street Journal (June 23, 1969).

[104] "Heard on the Street," Wall Street Journal (March 10, 1966).

about $4,000,000, or between $2.05 and $2.10 a share in the fiscal year ending March 26th.[105]

At the 1966 annual meeting, held in Boise in late June, company president J.L. Scott stated that earnings were expected to be lower in the first fiscal quarter. He did not specify the amount, but said that the earnings during the first quarter would be “about 10%” lower than the earnings of a year earlier when the figure was $1,550,014 or 27 cents a share. According to Scott, sales had increased to “around $76,000,000" from $64,596,000 a year prior. Still, he expected profits to rise and sales to jump about 17 percent. Responsible for the drop in first quarter earnings was the added expense of new store openings, and an additional 32 new stores were planned. Also, wholesale merchandising prices were increasing “much faster than we’ve been able to increase our retail prices.”[106]

The gain in profits for corporation continued, and Albertson’s president announced on September 28, 1965, that the quarterly dividend on common stock would rise from 20 cents to 27 cents, reflecting the surge in profits. He had more good news – the stock would split 3 for 1 and the new shares would be issued in early November. A company spokesman stated that “the reason for the split was to improve the stock’s trading position over the counter.”[107]

However, by the late 1960s, the vigorous expansion of Joe Albertson’s empire led to a temporary dip in dividends. The downturn was short-lived, as Barron’s pointed out when it referred to the company as “a rapidly expanding Western supermarket chain.” According to the magazine’s March 1969 analysis of Albertson’s,

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[105] “Albertson’s to Increase Dividend, Expects Rise In Fiscal 1965 Results,” Wall Street Journal (March 10, 1965).

[106] “Albertson’s Profit Fell In the First Fiscal Quarter Despite Increased Sales,” Wall Street Journal (June 27, 1966).

[107] “Albertson’s Raises Payout And Splits Common 3 for 1,” Wall Street Journal (September 28, 1965).

"owing to costs stemming from the switch over of some outlets to discount operations, earnings in the fiscal year ending March 31, 1969, probably only about matched the 85 cents per share netted the previous year." At the three-quarter mark of the fiscal year, the company earned 65 cents per share, up from the previous year's 56 cents. The earnings came on higher sales of $314.4 million versus $295.5 million.[108]

The expansion in 1968, when 11 southern California stores were converted to discount operations, also affected the company's profits significantly. Other factors played a role. For example, five stores in southern California were sold because of poor performance. "The decision to enter discount marketing in Southern California was made on an experimental basis in an area that is heavily discount oriented," wrote Barron's. "As a whole, Albertson's probably will continue its strongly competitive but non-discount method of operation."[109]

In addition to the venture into discount marketing, Albertson's earnings were impacted by pricing pressures from competitors, and that meant that the company could not pass on to consumers the rising costs of merchandising and labor. Albertson's top management moved to change this situation. "For one thing, it is upgrading profit margins by placing bigger stress on quality but low-priced products sold under the Albertson's label," wrote Barron's. "In addition, it has a marketing research department which is beginning to provide store managers with effective information on how to better compete with other supermarket chains, particularly discounters." Finally, the installation of a centralized computer system "is helping to tighten operations."[110]

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[108] "Rebound in Store at Albertson's As Food Chain Tightens Operation," Barron's (March 31, 1969).

[109] Ibid.

[110] Ibid.

By 1969, Joe Albertson's company boasted impressive figures, numbers that well exceeded its earlier forecasts. Albertson's Inc. operated 216 stores in California, Washington, Oregon, Utah, Idaho, Colorado, Wyoming, Montana, and Nevada. About 25% of the total sales came from California and an equal share in Washington. The company employed more than 8,500 individuals and grossed some $421 million, up from the previous year's $309.9 million, a nice increase. Corporate headquarters in Boise anticipated that sales in fiscal 1970 would top the $460 million mark, boosted by a building program calling for 25 to 30 new stores a year. The ambitious program of new construction would continue for the entire decade. "With the bulk of the nonrecurring expenses behind it," Barron's reported, "and benefits expected from an aggressive development program, an earnings rebound seems likely in the fiscal year ending March 31, 1970."[111]

The business magazine also observed that "long range development will largely remain in the West, where population growth of 60% on the Coast and 50% in the Mountain States is projected over the next 14 years, as compared to 32% nationally." About two-thirds of the Albertson's stores were situated in metropolitan areas in this region, and that strategy meant that Joe Albertson's supermarket empire was once again posed for rapid growth.[112]

Another element of the corporate strategy that aided development was the policy of constructing, selling, and then leasing back its supermarkets. Instead of tying up capital in real estate, Albertson's turned it over quickly, and as Barron's noted, "This has largely enabled Albertson's to record a return on stockholder's investment of 17.3% for the fiscal year ending March 30, 1968, compared with the industry average of about 10.7%." Other figures confirmed the high efficiency of the Albertson's operations. Inventory,

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[111] Ibid.

[112] Ibid.

for example, turned over 24 times compared with an industry wide average of 11.2. Average working capital also compared favorably, with about 2.3 percent of sales for Albertson's and 5.7 percent for the industry as a whole. Finally, average sales per store passed the $2 million mark in the Albertson's chain, a marked improvement over the industry average of $1.57 million. In just about every crucial category, Albertson's was well ahead of the national average.[113]

These figures largely explained the high return on stockholder's investments paid consistently by Albertson's. Another factor was the company policy of "avoiding 'backstage' operations wherever practical." This meant that Albertson's did not operate its own grocery warehouses, except for a specialized warehouse for high-volume items in Los Angeles. Instead, it relied on independent wholesalers, and this has contributed to its flexibility in expanding into new areas.[114]

At the corporate headquarters, Joe Albertson and his top managers introduced other changes that affected the bottom line. The company upgraded its computer operations in 1968 to "the latest third-generation equipment, utilizing all of the advantages of a real-time, on-line, multi-programmed system." The upgrade meant appreciable progress toward a fully integrated management information system. One result was that department managers, store managers, and corporate headquarters could keep track of inventory and product turn-over.[115]

At the Boise headquarters, corporate planning expanded during this decade and management issued a "Corporate Profile" in the spring of 1969. This forward looking document outlined the future of the industry and the future of the company, and identified for the

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[113] Ibid.

[114] Ibid. See also, Connie Kuhn, "Fast RTW Turnover Prompts 'Space Plan' at Albertson's," Supermarket News (April 7, 1969).

[115] Friedman, "Desire to Win," p. 18.

company these crucial areas:

1. Emphasis on cost reduction through better use of electronic data equipment, more efficient distribution methods and more use of automatic equipment.
2. More efficient utilization of labor through better training and work methods.
3. Newer and better merchandising innovations through better store layout and planning with computer assistance.
4. Greater emphasis on an operation that will provide 'one-step-shopping.'
5. Better trained, better educated and smarter management.[116]

Along with strategic planning, the Corporate Profile also dealt with such fundamental issues as the products placed on the supermarkets' shelves and how they get there. Management had long paid close attention to warehousing, and according to the Corporate Profile, "One factor inherent in its historical background that has made Albertson's unusually flexible for store expansion has been the general elimination of warehousing. Its stores buy most items direct from independent wholesalers." Furthermore, "traditionally, the company has favored the greater return available on investments in retail operations that result from a more rapid turnover of inventories. This operating philosophy has worked well as the company has moved to its many scattered locations from its Boise base."[117]

As Joe Albertson's supermarket empire expanded, opening more stores in metropolitan areas, it looked for warehousing opportunities in some of these locations. As the Corporate Profile reported, "produce warehouses and high volume-type grocery item warehouses are now in operation in Salt Lake City and Los Angeles.

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[116] Quoted in Friedman, "Desire to Win," p. 18.

[117] Ibid.

As volume advantages accrue in other concentrated areas, additional distribution facilities will undoubtedly be considered." In addition, "the company is willing to embark on what it calls other 'backstage' operations which require lesser investment and produce higher margins than warehousing. For instance, it produces or commissions most of its ice cream requirements and is engaged in the distribution from loading dock to store of dairy products, frozen foods, produce and meat."[118]

Joe Albertson had long believed in a "good mix" of both national and private labels on the products his stores carried on their shelves. The Corporate Profile identified three reasons for the focus on national brand merchandise:

1. Their manufacturers spend millions of dollars annually in advertising.
2. Americans are highly mobile and it is an advantage to concentrate on brands with which they are familiar no matter where they have lived.
3. The company is highly mobile, again making brand familiarity advantageous.[119]

As the Profile stated in regard to labeling, "greater emphasis is now being placed on providing quality products under the Albertson's label." There were good reasons for this emphasis: "This not only gives the shopper greater price-value alternatives, but also strengthens the company's merchandising display techniques and product-mix capabilities." Also, "considerable research is being accomplished to develop an Albertson's family of custom products." Joe Albertson emphasized the importance of good labeling in a 1969 interview, describing it as "an asset to any product, but if the product doesn't have quality the label doesn't mean very much."[120]

In line with that philosophy, "Each item selected for the

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[118] Ibid.

[119] Ibid.

[120] Ibid.

Albertson's label is thoroughly tested for high quality standards comparable with the nationally advertised brands," noted the Corporate Profile. "Another important criterion in this selection process is the product's ability to provide real value for the customer at an intermediate price level not normally filled by other brands."[121]

Closely tied with this strategy was careful merchandising and the guarantee that the products a customer was looking for were to be found on the shelf at the local Albertson's Food Center. "Merchandising is having goods that customers are ready and willing to buy at prices they are ready and willing to buy, coupled with all the tender, loving care we can give," Joe Albertson explained in a 1969 interview. "All of us are human and, being human, we respond to human treatment."[122] He and his company remained true to the principles that guided him when opening the first Albertson's Food Center in 1939. A good example of this was Albertson's practice of having an in-store bakery, launched with the first store, cooking up fresh bread whose smell drifted across the store to the shoppers. This introduced a down-home touch, and it helped the stores move more baked goods and other items. Plus, it meant that the shopper could get fresh bread throughout the day. Albertson's thought it so important that in 1960, more than two decades after he first introduced an in-store bakery, corporate advertising rested heavily on the slogan, "A Bakery in Every Store." As a regional bakery supervisor commented, "the bakery phase of our operation has been an important part of our service to the public ever since we opened our first store in Idaho 21 years ago." He added, "we operate a complete bakery unit in each of our stores and output of these bakeries is increasing steadily."[123]

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[121] Ibid.

[122] Ibid.

[123] "Baked Goods Department Sparkle With New Look," Supermarket News (August 15, 1960).

Another factor, as Joe Albertson emphasized in a 1969 interview, was the people working in each store, from those stocking the shelves to the top management, who are viewed as crucial to the success of Albertson's. The commitment to the customer that guided Joe Albertson and his staff when he opened the first store remained as strong as it was then. "Certainly I recognize more fully than anyone else that the success of the organization and my personal success is directly related to the selection of many good people, so I sincerely feel that the recognition goes not only to me but to each of these people who have been a part in our growth and our success and I would say without equivocation that our employees are our most important asset," observed Joe Albertson. "As we all know, one man is limited in what he himself can accomplish as an individual on his keen desire to do all he can as an individual to advance himself and to advance his company's welfare along with his. The greatest asset for the individual to have is desire to win."[124]

Joe Albertson added: "An individual must have a keen desire to learn, to broaden himself, to excel. If he has these, he can't help but succeed in the business." To build on that, Albertson's adopted thorough training for the staff. Joe Albertson stated simply: "We have a fine training program. When young people come in and say - 'We want to be with Albertson's and we want to go as far as we can' -- we have a program in which they spend a few weeks in each department of corporate management. Then they are started out in different departments and they work on up to store managers, or such, then receive more training and reach more responsible positions." In fact, "We believe that no business can be highly successful without a productive training program."[125]

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[124] Quoted in Friedman, "Desire to Win," p. 18.

[125] Ibid.

CHAPTER 5

"REACHING THIS BILLION DOLLAR SALES FIGURE"
GROWTH AND EXPANSION IN THE 1970S

Joe Albertson's supermarket empire started the decade of the 1970s with another spurt of growth and record profits. The steady gains of the previous ten years identified Boise's Albertson's Inc. as one of the fastest growing and most profitable concerns in the nation. And not surprisingly, it continued to attract attention in the business world. In a 1972 article, Barron's called it "an aggressive Western supermarket chain," and added that it "has been broadening its merchandising and geographic base of late through a joint venture in the retail drug field, is poised to ring up fresh gains in profits."[126] In other words, even though it is based in Boise, Idaho, this is a company that has moved ahead with vision and sound management, a company that knows how to make a profit, and that meant solid returns to investors.

The expansion plans developed by top management at Albertson's Inc. included the launching of a joint venture with Salt Lake City's Skaggs Cos. This was to place "under one roof a large drug store and grocery supermarket that are run as a single unit," a daring move that built upon the old idea of offering the shopper more than just groceries in the same store. The venture began in January 1970 when Albertson's paid $2.1 million for half ownership of nine drug stores recently purchased by Skaggs from Safeway. These shops grossed about $16 million a year, thereby adding immediately to corporate revenue.[127] The venture also came from a desire "to see if by pooling their talents they could fulfill a retailing dream by blending drugs and groceries," Forbes commented. There were

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[126] "Fresh Advance in Profits In Store for Albertson's," Barron's (April 24, 1972).

[127] "Wholesome Gains Being Rung Up by Albertson's," Barron's (March 12, 1973).

advantages for each component, for the branch offering food and produce and for the branch selling pharmaceuticals and over-the-counter drugs. Supermarkets like what drug stores sell, items with a higher markup, and drug stores liked supermarkets because of the high volume and heavy traffic they brought in. No company had yet tried to move so extensively into this new area—offering a supermarket and super-drugstore under the same roof, with a single checkout system. As it would turn out, they "succeeded beyond everyone's wildest dreams."[128]

A central element of the growth plans developed at the Boise headquarters was a commitment to and investment in additional supermarkets, to a program of steady expansion. In June 1970, the company announced plans to invest more than $19 million in new buildings and equipment in the coming year alone. J.L. Scott, company president, announced that 23 supermarkets were scheduled for construction within Albertson's ten states area of operations. Now, though, the corporate emphasis would be Texas where ten of the new stores would be combination Skaggs-Albertson's, of groceries and drugs.[129]

Throughout the early 1970s, the trend continued. In fiscal year 1971, for example, an additional 15 new supermarkets were opened and 20 others remodeled. The expansion was reflected in sales which, Scott predicted, would rise to about $500 million in fiscal year 1971, up from $449.3 million the previous year.[130]

The ambitious program of growth led to talks between Albertson's and Skaggs Co. of Salt Lake City about a possible merger. As reported in The Wall Street Journal on January 29, 1971,

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[128] "Home-Baked Bread, Anyone? TV Sets? Blue Jeans?," Forbes (May 15, 1977).

[129] "Albertson's Inc.," Wall Street Journal (June 29, 1970). "Albertson's Inc.," Wall Street Journal (June 28, 1971).

[130] "Albertson's Inc.," Ibid. "Albertson's Inc.," Ibid.

Joe Albertson and company president L.S. Skaggs were "at a very early stage" in their negotiations which focused on a five percent stock dividend to shareholders of Skaggs stock, followed by an exchange of two shares of Skaggs for each three shares of Albertson's. According to the newspaper's estimate, on the basis of the average shares outstanding, the transaction would be valued at about $103 million.[131]

On the same day The Wall Street Journal ran its account, the cross-town rival, New York Times, described the merger talks as an acquisition move on the part of Skaggs, suggesting that the drug company was taking over the grocery stores. According to the Times, "Skaggs-Companies, Inc., has started preliminary discussions to acquire Albertson's Inc., operators of more than 200 supermarkets."[132] Skaggs was a good sized corporation, operating 180 drug stores in the Midwest and West. In 1969, the company earned $5,235,645 on sales of $172,200,000. Any agreement for a merger or acquisition, however, was subject to approval by the board of directors and stockholders. Skaggs and Albertson's had operated a joint venture in Texas since late 1968. A spokesman at Albertson's told The Wall Street Journal that it was not yet decided whether Skaggs "would be the surviving company, but it would be a 'good assumption.'"[133]

The merger talks went on for almost a year before concluding "on a friendly and mutually agreeable basis" with no take-over or acquisition in mid-December 1971. Spokesmen for the two companies emphasized that the termination of merger talks would "in

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131 "Albertson's Link With Skaggs Cos. Being Negotiated," Wall Street Journal (January 29, 1971).

132 Alexander H. Hammer, "Skaggs Is Seeking A Grocery Chain," New York Times (January 29, 1971).

133 Ibid. "Albertson's Inc.," Wall Street Journal (January 29, 1971).

no way" affect the joint venture they operated in Texas.[134] The partnership continued until early 1977, when, according to a report in the February 1, 1977, The New York Times, "an agreement to dissolve the Skaggs-Albertson partnership effective yesterday, has been reached." Together, they had operated 58 large combination drug-grocery stores and 13 drug stores in several southern states until the breakup. According to the separation agreement, "ownership of the stores will be distributed on about a 50-50 basis to the two companies. Neither of them is expected to show a significant gain or loss on the transaction."[135]

Early in 1972, Albertson's gains continued to attract the attention of analysts who projected further growth in the value of its stock and further expansion of its operations. Both The Wall Street Journal and Barron's offered optimistic predictions, with the former estimating a gain in stock value of a possible 50% within a year.[136] The anticipated gains in profits were readily apparent in the 1972 figures. During the 39 weeks leading to January 1, 1972, the net of Albertson's Inc. rose from $4.4 million, or 75 cents a share, to $4.8 million and 83 cents a share. During the same period, sales went from $361 million to $405 million. The net for the fiscal year was then estimated at exceeding $6 million, or $1.05 a share, and sales were expected to reach $545 million.[137]

In fact, Barron's was decidedly bullish on Joe Albertson's company, writing: "With the full year's benefit ahead of it from a two-

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[134] "Albertson's and Skaggs Halt Talks on Merger," Wall Street Journal (December 16, 1971).

[135] "Partnership Dissolved By Skaggs-Albertson," New York Times (February 1, 1977).

[136] Dan Dorfman, "Heard on the Street," Wall Street Journal (February 15, 1972). "Fresh Advance in Profits In Store for Albertson's."

[137] "Fresh Advance in Profits In Store for Albertson's."

year conversion to discount operation (substantially completed in calendar 1971) and a record number of new store openings slated, volume in fiscal 1972-73 could top $625 million, on which $1.25 or more per share may be earned."[138] The shift to discount operations had begun in fiscal 1967, and by 1970, the move was only about 10 percent completed. The company then launched a two-year push to complete the transition. This meant halting most use of trading stamps, promoting weekend specials, and lowering shelf-prices. As a result of these changes, the company was also able to reduce the work force by three to five employees per store.[139]

Other management changes aided the gain in sales and profits. For example, each store, Barron's wrote, "is maintained as a profit center with the store manager, assistant heads (bakery, meat and produce) receiving a share of profits, averaging in recent years about 16% of that unit's net after taxes and allocation for general and administrative expenses."[140] In addition, the volume of sales remained remarkably consistent over the years, with about 46 percent of fiscal 1971 volume coming from meat, 15 percent from non-foods, 8 percent from produce, and 8 percent from bakery items. Another feature that aided profit was that Albertson's relied heavily on independent wholesalers as it sought to avoid investment in warehouses which tied up needed capital. The company did, however, operate some warehouse facilities near large markets, such as Los Angeles, Salt Lake City, San Francisco, and Seattle.[141]

As Albertson's Inc. expanded steadily through the West, its sales reflected the wisdom of its careful planning. In fiscal 1971, the

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[138] Ibid.

[139] Ibid.

[140] Ibid. Gold, Modern Supermarket Operations, pp. 131-133.

[141] Gold, Modern Supermarket Operations, pp. 131-133. "Fresh Advance in Profits in Store for Albertson's."

distribution of the sources of revenue spread across the western states with 27 percent from California, 19 percent from Washington, 13 percent from Oregon, 27 percent from the five Rocky Mountain States (Utah, Idaho, Montana, Nevada, and Wyoming), 7 percent from Colorado, and the rest from joint-venture states of Texas, Oklahoma, and Arkansas.[142] During these years, the growth, the construction of new stores, continued. In fiscal year 1972, the company announced its intentions to open 19 new stores, and in fiscal 1972, the projections called for another 25 stores which would bring the total operating under the Albertson and Skaggs-Albertson's names to 248. Along with new construction, Albertson's top management looked for acquisitions. In June 1972, for example, Albertson's bought the assets of Mountain States Wholesale Co. for an undisclosed amount of cash. Mountain States distributed food, dairy, and drug products to independent retailers in eastern Washington, Oregon, Idaho, Utah, Colorado, and Nevada. Albertson's announced that it would be operated as a separate division within the empire.[143]

The new supermarkets built by Albertson's followed similar and well tested models. Most of these new outlets ranged in size from 19,000 and 25,000 square feet of gross selling space, with some variation depending upon location. Some of the new joint venture units were as large as 55,000 square feet. Each new market represented an investment of $400,000 to $500,000 in fixtures and starting inventory, but each typically operated profitably within a year, having earned the startup costs of about $50,000.[144]

Over the next several years and led by new president Robert D. Bolinder, who succeeded J.L. Scott in July 1972, corporate profits

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[142] "Fresh Advance in Profits in Store for Albertson's."

[143] Ibid. "Albertson's Buys Assets Of Di Giorgio Subsidiary," Wall Street Journal (June 15, 1972).

[144] "Fresh Advance in Profits In Store for Albertson's."

continued to soar. The figures for fiscal year 1972 showed a profit of $6.3 million on sales of $550.2 million, solid numbers that increased another 17 percent the following year. In fiscal 1973, earnings reached $7.4 million, and sales hit the $681 million mark, an increase of almost 24 percent. Albertson's operated 251 supermarkets in twelve western states, including 33 drug or combination stores with Skaggs. These gains, company president Bolinder announced, came "despite price controls that prevented food retailers from passing on higher operation costs." He added that "the President's program was really beneficial" because it forced the company to "become better merchants," operating more efficiently and being more aggressive in its sales policies.[145]

There was no let up in expansion. During 1973, Albertson's planned to invest another $40 million in new stores, with the corporate plan calling for 25 new supermarkets and 10 Skaggs-Albertson's joint ventures. Sales were projected to exceed $800 million.[146] As it turned out, 1973 was "the best record in its 34-year history," Barron's wrote. It "appears likely to ring up fresh peaks in fiscal 1974," with its 219 supermarkets and half interest in 33 stores operated with Skaggs Cos. Earnings per share rose from 91 cents in 1971 to $1.08 in 1972 to $1.30 in fiscal 1973, and that figure was expected to grow to $1.50 in the next fiscal year. The gains were impressive, and as Barron's pointed out, "Each year since 1963, revenues have topped those of the preceding 12 months."[147]

The reasons for the growth in sales and improvement in

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[145] Albertson's Inc., "Annual Report for Fiscal Year Ended February 3, 1973." "Albertson's Bolinder Named President to Succeed Scott," Wall Street Journal (July 3, 1972). "Albertson's Fiscal '73 Net Up 17%," Wall Street Journal (March 5, 1973).

[146] "Albertson's Inc.," Wall Street Journal (May 29, 1973).

[147] "Wholesome Gains Being Rung Up by Albertson's," Barron's (March 12, 1973).

profits varied, but several factors are readily identifiable. The bulk of the stores operated by Albertson's, with the exception of 30 in Montana and Utah, for example, were converted to full-discount. An additional 40 unprofitable or marginal units were closed, thereby cutting costs. Other stores were remodeled or enlarged. Furthermore, products sold under private label now amounted to 20 percent of the volume, in contrast to only five percent in 1969, and non-food items received more prominence in the stores. Other factors included employee training programs and new systems for dating perishable products and giving the unit price of items. Most of the stores in the Albertson's chain had a hot bakery, "a feature calculated to help create a congenial atmosphere." Finally, the joint venture with Skaggs accounted for $60 million of its 1973 volume and $1.6 million of pre-tax net. By the end of fiscal 1973, the two companies operated 18 stores, and they planned an additional nine stores in 1974. The joint venture outlets operated under a separate management unit based in Dallas.[148]

In the "Corporate Profile" of February 1973, management in Boise identified four categories as responsible for the surge in earnings over the past three years. First," "Consumerism," an emphasis on the needs of the shopper, remained of foremost importance. Albertson's motto was "We care about you," and commitment to this "represents the key to its past and future success."[149] The new "Tru-Valu" unit-pricing system gave consumers the price of each product in a common unit of measurement. Also aiding the consumer, each package carried a code-dating system to identify freshness. Meats and produce came in clear packages, each labeled with fat content or nutrition value, "all to help the customers make intelligent decisions in their shopping experience," the

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[148] Ibid.

[149] "Albertsons: Man in Gold. Corporate Profile," February 3, 1973, p. 2-3.

Corporate Profile stated.[150]

Next came "Diversification," the broadening of the retail base of the corporation, and that meant such steps as in the joint venture with Skaggs. Third, innovation in "Merchandising and Operating Techniques" were viewed as key to booking profit, and Albertson's "developed one of the most successful private label programs in the industry," with sales increasing from less than five percent in 1969 to more than 20 percent in 1972. The company offered a customized label in every major product category, which "provide the customer greater price-choice alternatives and at the same time provide the Company better product-profit mix opportunities." Innovative operating techniques included a Boise based computerized management information system. Also, store designs and equipment were continuously scrutinized, and up-to-date labor saving techniques, including electronic check-stands, were tested and introduced.[151]

Fourth, "Training" was identified as a central feature of Albertson's continuing success, and during the early 1970s, this expanded at all levels. Each division had its own training manager and a center for on-going training. The advances in these four categories made corporate management bullish on expansion in the coming years.[152]

The steady gain in sales and profit continued through the mid-1970s. In fiscal year 1973, the company earned $7.5 million, or $1.30 a share, and during the next year, sales were projected to reach $850 million, up 25 percent from $681.6 million. Reflecting these gains, dividends were increased in September 1973 to 12½ cents per share from nine cents. Company president Robert Bolinder told The Wall Street Journal: "We're watching the situation carefully.

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[150] Ibid.

[151] Ibid., p. 5.

[152] Ibid., p. 6.

It's our philosophy to pay dividends which amount to about one-third of our earnings. If our earnings continue to improve, then obviously we'll increase our dividend."[153]

The achievements of Joe Albertson's company continued to attract the attention of analysts and the leading business publications. Once again, Barron's featured Albertson's, writing in the spring of 1974 that with "peak earnings in the fiscal year end[ing] February 2, 1974, [Albertson's] is poised to ring up fresh gains in the new year now underway."[154] The article pointed out that in 1973 earnings amounted to $9.1 million, or $1.45 per share of stock, and in fiscal year 1975, net could be more than $1.60 a share. "The company, which has chalked up record earnings in the last four years in a row, boasts a compounded average annual growth rate of 10 percent in earnings and 14 percent in sales for the decade through fiscal 1974."[155]

Sales in fiscal 1974 were spread across the western states, with 17 percent from Southern California, 15 percent from Northern California, 11 percent from Western Washington, 11 percent from Oregon, 8 percent from Utah, 8 percent from Eastern Washington, 8 percent from Montana, 8 percent from Northern Idaho, 8 percent from Colorado (and Wyoming), 7 percent from Idaho, and 4 percent from the Mountain States Wholesale division. The rest of the profits were derived from the joint venture with Skaggs.[156]

Strong sales led Albertson's Inc. to plan the opening of another 25 stores in the next fiscal year. Five existing stores, however, would be closed. By the end of fiscal 1975, the company

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[153] "Albertson's Says Sales In Fiscal '74 Will Climb 25%, Net Slightly Less," Wall Street Journal (November 12, 1973).

[154] "Albertson's to Ring Up Fresh Advance in Profits," Barron's (April 8, 1974).

[155] Ibid.

[156] Ibid.

expected to be operating a total of 299 stores. Along with the increase in the number of stores, the size of them also grew. In October 1973, Albertson's opened a 36,000 square foot store in Buena Park, California, its largest to date. Still larger units were planned, with two in Albuquerque, each with about 40,000 square feet. About a third of their selling space would be devoted to non-food items, compared with 10-15 percent in most other Albertson's stores. Also, in June 1974, the company opened its first full-line warehouse which was to serve Southern California.[157]

The rapid growth of Albertson's also attracted attention from other quarters, and some of this was unwelcome. In April 1974, the Justice Department filed a civil antitrust suit "seeking the divestiture of an Idaho grocery wholesaler acquired in 1972 by Albertson's Inc.," The Wall Street Journal reported.[158] Albertson's was, according to the complaint filed in federal district court in Boise, the largest retailer of groceries and related products in southern Idaho and eastern Oregon at the time of the purchase. In addition to divestiture, the suit called upon Albertson's and Di Giorgio Corp., from whom Mountain States Wholesale Co. was purchased, to "take such action as is necessary to restore competition eliminated in the retail sale of groceries as a result of the acquisition." The lawsuit aimed to bar Albertson's from any acquisitions of wholesalers or retail distributors of groceries in the region for 10 years. Company president Robert Bolinder told the press that the suit was "without basis." And he added, "We think the Justice Department made some basic errors in its assumption as to why we acquired Mountain States Wholesale Co." In fact, Bolinder insisted that through the purchase, Albertson's "actually preserved the competitive environment of the Mountain States' outside customers." He also pointed out that these operations were not "too significant,"

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[157] Ibid.

[158] "Albertson's Purchase of Grocery Wholesaler Is Challenged by U.S.," Wall Street Journal (April 22, 1974).

amounting to only about 3.4 percent of the company's total sales.[159]

In October 1976, Albertson's announced that it had arranged for the sale of its Mountain States Wholesale Co. subsidiary to American-Strevell Inc. of Salt Lake City. No terms were disclosed, but the sale was expected to close by the end of the year. The U.S. Justice Department and the federal court in Idaho gave their approval.[160]

In another legal matter, the Federal Trade Commission ordered Albertson's "to make available items advertised at a reduced price or to give customers a rain check for them," The Wall Street Journal reported in December 1974. The FTC had responded to complaints that stores in Portland, Seattle, and Denver were advertising a large number of items which were, however, not available to customers when they came to the store. Under the FTC directive, the food chain was required "to post at store entrances and check out counters copies of its ads along with a notice of which items are unavailable and an announcement that rain checks will be issued for them. The order also requires sale items to be clearly marked on the shelves as well." In response, the company's chief executive officer, Robert Bolinder (he was promoted to that position in November 1974, and Warren E. McCain named to replace him as president.[161]), stated that it was the company's long-standing policy to

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159 "Albertson's Purchase Of Grocery Wholesaler Is Challenged by U.S."

160 "Albertson's Plans to Sell Mountain States Unit To American Strevell," Wall Street Journal (October 7, 1976). "Albertson's Inc. Agrees To Sell Grocery Chain In Consent Judgment," Wall Street Journal (January 31, 1977).

161 "Albertson's Names Bolinder to Chief Executive Position," Wall Street Journal (November 26, 1974).

have such items available.[162]

At the same time, sales and profits continued to rise. Earnings during fiscal year 1975 were projected to be at least 20 percent higher than the previous year, and Robert Bolinder predicted that sales would in fact top the $1 billion mark, up from a record $852.5 million in 1974.[163] Albertson's Inc. reached the billion dollar figure already in mid-January 1975, and Joe Albertson himself was on hand for the occasion, bagging the groceries for the "billion dollar customer." As he explained to the customer, "I'm a little slow. I haven't done this for a while." The founder of the nation's 16th largest food chain told the press, "I'm very happy and elated about reaching this billion-dollar sales figure. Hopefully, it won't take another 35 years to reach it again...It's been a very satisfying, rewarding and challenging life for me, looking back on it all, thanks to all our loyal customers."[164]

The company was justifiably proud of the achievements. "What has resulted [since opening the first store in 1939] is a tribute to his vision, guts and the free-enterprise system," corporate executive Robert Bolinder told a Boise civic club. Albertson's stores rest solidly on what he called a "tradition of consumerism." And he added, "We businessmen who live in a dog-eat-dog world some of the time tend to forget who we are charged to serve. We retailers are buying agents for our customers, not manufacturers' sales representatives. Consumers have the right to ask hard questions from us and get hard facts." Bolinder also said that the biggest challenge was to "increase productivity in the years ahead," and a

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[162] "Albertson's Consents To FTC Order Linked To Price Advertising," Wall Street Journal (December 4, 1974).

[163] "Albertson's Sees Earnings Gains," Wall Street Journal (July 12, 1974).

[164] Tim Woodward, "Joe 'Returns' to Old Job: Albertson's Tops Billion Dollars," Idaho Statesman (January 17, 1975).

computerized checkout system that was currently being tested might be the answer.[165]

Local business leaders and the community came forward to honor Joe Albertson and his company's achievement. The Boise Chamber of Commerce announced that February 18th would be "Joe Albertson Day."[166] After the celebration, the proud entrepreneur told the local newspaper that while being "pleased and very humbled," he thought the day might well be called "Albertson's customers and employees day, because really it's our customers and employees who have made Albertson's what it is."[167]

In large measure the success of Joe Albertson's supermarket empire was due to its long-standing commitment to the consumer. "Albertson's is engaged in the business of operating food and drug stores with integrated distribution and manufacturing facilities to support the retail effort for the purpose of satisfying consumer needs," the Corporate Philosophy announced. Adopted in 1975, the Corporate Philosophy identified those elements that the company had to continuously provide, namely:

1. Distinctive quality and personalized service in all departments;
2. Helpful friendly service throughout the store;
3. Fast, clean, one-stop convenience;
4. Attractive competitive prices;
5. Conveniently laid out, well-stocked grocery departments with good selection of regular

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[165] Ibid.

[166] "Business. To Be Honored," Idaho Statesman (February 2, 1975). "Chamber to Honor Albertson's Chief," Idaho Statesman (February 16, 1975).

[167] John E. Cushman, "Associates Honor, Take Witty Pokes At Joe Albertson," Idaho Statesman (February 19, 1975).

and seasonal merchandise.[168]

Furthermore, Albertson's Inc. viewed itself as "a big store with a specialty store approach. We must be 'big' in terms of low prices, convenience and wide selection of brands. We must be a 'specialty' store in terms of quality, personal service and specialized selection."[169] An advertisement campaign announced to shoppers the "Everyday Low Price Program" that eliminated double coupons, contests, and low price advertised specials, but "offers our customers the lowest possible prices so that there is no need for them to shop other stores to get the lowest overall total." Newspaper ads and weekly promotional events communicated the new program of low prices high value to shoppers. Over the next three years, more than 50 percent of the company's volume came from sales generated by this campaign.[170]

Having topped the billion dollar sales figure was a major achievement for the Boise based supermarket chain. To sustain its vigorous growth, the company announced in December 1975 plans to offer the sale of 750,000 new common shares. The funds were earmarked for working capital and expansion.[171] Sales rose more than 20 percent in 1976 to $1.2 billion; company profits rose, too, jumping 35 percent to $15.7 million, figures that showed the strength of company planning that involved the opening of new stores and improvement of sales in existing units. In 1975, an additional 15 new supermarkets opened in California, Oregon, Utah, Washington, Colorado, New Mexico, Idaho, and Nevada, bringing the total number of Albertson's supermarkets to 252. Nine older and obsolete units

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[168] Quoted in Albertson's Inc., "Annual Report for the Fiscal Year Ended January 31, 1985."

[169] Ibid.

[170] Albertson's Inc., "Annual Report for the Fiscal Year Ended 1987."

[171] "Albertson's Plans to Offer 750,000 New Common Shares," Wall Street Journal (December 13, 1975).

were closed.[172] As the company continued to grow, a new development took place in January 1977. It was announced that effective January 31st, the partnership with Salt Lake City's Skaggs Companies would be dissolved in what Business Week described as an "amicable separation."[173]

Launched in 1970, the partnership with Skaggs grew to operate 58 large combination drug-grocery stores and 13 drugstores in several southern states. According to the separation agreement, the two companies would split operation of the stores on a 50-50 basis, and neither expected much of a gain or loss in the value of its holdings. The revenue generated from this venture which had pioneered the first successful "superstores," giant combination food and drug stores, was by 1977 $622 million.[174]

It was their very success that led to the split, and, as Business Week observed, "Ironically, the parting of the ways for Albertson's Inc. ($1.4 billion in sales last year) and Skaggs Cos. ($782 million in sales) resulted from the success rather than failure of their 50-50 joint venture." Since 1970, the partnership had grown to 58 stores in Florida, Louisiana, Arkansas, Oklahoma, and Texas. Both parties told the press that it was time for each to go his own way. Skaggs' senior vice-president, Richard L. Shanaman, stated: "Our success and ability to penetrate the market was beyond our fondest hopes." Albertson's vice-chairman, Robert Bolinder, remarked: "As our partnership gets larger, it affects the destiny of our companies because each year it generates a proportionately larger amount of sales. It became feasible from a management point of view to

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172 Albertsons' Inc., "Annual Report for fiscal year ended January 31, 1976."

173 "Skaggs-Albertson's 'Amicable Separation'," Business Week (February 14, 1977).

174 "Albertson's Inc. Agrees To Sell Grocery Chain In Consent Judgment." "Skaggs-Albertson's 'Amicable Separation'."

separate them before we got larger. Because, down the road, we could have had different priorities on where to put stores, how many, and when."[175] Bolinger told Forbes, "it's scary when a major part of your expansion is taking place in an operation in which you only have 50% interest. Obviously you find yourself at the mercy of the other party."[176]

Top management at Albertson's Inc. was confident that the dismantling of the joint-venture was a wise decision. Even though the food and drug businesses are indeed very different, Bolinder believed that his management team had learned the ropes well enough to continue and compete effectively on their own. "We are so large we have adequate management built up to handle this properly," he explained to Business Week. "We will not bring in outsiders." According to the agreement on the split, each company receives 29 superstores. But Bolinder added, "a dartboard would have been tempting at times in deciding who got which locations. We once had seven plans but decided on a 50% split on earnings, sales, and assets." Albertson's took over all the stores in Florida and Louisiana and a few in Texas. "A geographical division made sense for advertising." But the real challenge for both companies, Bolinder explained to Business Week, "is to develop our management and to maintain our momentum."[177]

Albertson's Inc. remained poised for further expansion, and at the time of the split from Skaggs, it announced plans to build seven new superstores in west Texas, Florida, and Alabama, along with 20

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175 Quoted in "Skaggs-Albertson's 'Amicable Separation'."

176 "Home-Baked Bread, Anyone? TV Sets? Blue Jeans?"

177 "Skaggs-Albertson's 'amicable separation'." See, "Combo Stores: The Skaggs-Albertsons equation: 2 into 1 and back again," Sales and Marketing Management (September 1978).

new supermarkets across round the country.[178] Even as the company expanded, the attention to details and, above all, to customer service and satisfaction remained strong. As Forbes wrote in 1977, "particular attention is paid to perimeter operations like full-line delicatessens and in-store bakeries," facilities that do attract customers. In fact, "several years ago the company even experimented with blowing the smell of its baking bread into the stores as a customer-pleaser." Albertson's Inc. was slow in introducing its private labels on products, even though they were more profitable than national brands. It continued to offer a wider choice of such items than its competitors. Furthermore, "to keep the quality image, no store goes more than ten years without being completely remodeled."[179]

Such "frills", as Forbes pointed out, mean that prices at Albertson's markets "may not be the lowest in town, but that is by choice." Joe Albertson, who at the age of 70 remained active in the operations of the company, added, "to be successful in any business you have to have the product people are willing to pay. Plus tender loving care."[180] For Joe Albertson, customer service continued to be rule number one for his company, the main reason in his view for its enduring success.

Another key to the company's success has been the way Joe Albertson encourages and develops his management team, and this is important, because as Forbes wrote, "one of the troubles with being a standout in a so-so industry is that rival firms tend to raid you for talent." Joe Albertson brought in his successor early, as he moved from President to Chairman of the Board in 1972, because "even sudden management shifts have not thrown the company off

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[178] Ibid. "Albertson's to Open 17 Stores," Wall Street Journal (February 4, 1977).

[179] "Home-Baked Bread, Anyone? TV Sets? Blue Jeans?"

[180] Ibid.

balance." For example, in 1974, Jonathan Scott, vice chairman, was hired away in order to run troubled A&P, "a tribute to Albertson if there ever was one." Warren McCain, who took over as vice-chairman from Bolinder, commented that "People always ask how we're doing without the people who've left. My answer is 'better.' It offers more mobility for younger people working toward those positions."[181] In 1976, Warren McCain assumed the positions of Chairman of the Board and CEO, and the company soon entered "the greatest period of growth in its history."[182]

Joe Albertson offered his thoughts: "I let them (the executives) run the company. That's the secret to our success. You have to get the best talent you can and then you have to delegate them the authority to run the company." Talking to a local reporter in 1978, he recalled: "There was a day when I had to do damn near everything. But today I don't worry. We have a very talented staff of people here. They get an understanding what is expected from them and, given authority, they get in there and work for you. That's the secret."[183]

With profits soaring, the company announced in August 1977 its plans to build a new $5 million headquarters in Boise's Parkcenter development, along the Boise River. Construction was to begin in a few months, and the 130,000 square foot building was expected to be ready in November 1978.[184] Another sign of the ongoing expansion of the company was the purchase of 46 Fazio supermarkets in the Los Angeles area from Fisher Foods Inc. The agreement included provisions for Albertson's to pay a specific amount of cash, lease

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[181] Ibid.

[182] "Our Company. Albertsons 1970," 2221.albetsons.com.

[183] Karl Dunn, "Yes, there really is a Joe Albertson," Idaho Statesman (August 6, 1978).

[184] "Albertson's Plans to Build $5 Million Office in Boise," Wall Street Journal (August 26, 1977).

store equipment, assume some leases, and other provisions. The estimated value of the acquisition was "in excess of $50 million." As a Fisher Foods' executive told The Wall Street Journal, the stores were not making the desired level of earnings and the chain "had only about 4%" of the Los Angeles market. "We had explored the possibility of acquiring additional stores, but then this selling opportunity came along." Albertson's was already in that market, with about three percent of sales, "so neither of us probably would have been able to hang on separately over the long run."[185]

When asked about the highly competitive market in that region, the vice-president for marketing at Albertson's, Pamela Beaumont, commented: "It's nothing we're afraid of. We're competitive, but we go our own way and don't play follow the leader." She also emphasized that unlike Fazio's, they would not directly challenge other stores' prices. Instead, Albertson's expanded its "big store, little store" concept, or as she explained, "we feel very strongly that Albertson's is just a big grocery store with a lot of little stores inside." That tied in nicely with the 18-month-old advertising campaign--"It's Joe Albertson's supermarket, but the meat [bakery, produce, etc.] department is mine"--which individualized the various departments and identified for the customer the person in charge of each part of the supermarket, especially their favorite.[186]

By the end of the 1970s, Albertson's had grown to the ninth largest supermarket company in the nation, operating 365 supermarkets in 15 states. The year 1978 saw sales growing 25 percent to more than $2.27 billion, and earnings shot up by 47 percent to $36.4 million. Corporate headquarters identified in 1979

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[185] "Albertson's Agrees To Buy 46 Stores From Fisher Foods," Wall Street Journal (April 28, 1978). "Albertson's Acquires 46 Stores," Wall Street Journal (July 18, 1978). Chuck Wingis, "Albertson's Joins Competitive Fray in Southern California," Advertising Age (October 30, 1978).

[186] Wingis, "Albertson's Joins Competitive Fray."

several features as key to this growth: the addition of new Albertson's stores "to expand and strengthen key marketing areas," the development of still "larger super food-drug combination stores" in several southern states, and "the development of distribution facilities."[187] During the decade of the 1970s, sales increased a whopping 495 percent, from $449.3 million in 1969 to $2.67 billion in 1979, and earnings shot up 867 percent from $4.6 million to $44.5 million. "We feel a good foundation has been built for continuing our existing progress during the next decade," Warren McCain commented modestly.[188] And his optimism proved correct.

[187] Albertson's Inc., "Annual Report for Fiscal Year Ended February 1, 1979."

[188] Albertson's Inc., "Annual Report for Fiscal Year Ended January 31, 1980," p. 4.

CHAPTER 6

"JUST BUSINESS AS USUAL"
MORE GROWTH, EXPANSION, AND PROSPERITY IN THE 1980s

During the decade of the 1980s, Albertson's Inc. continued the program of steady expansion, a management plan that over the years had guided the corporation to record sales and soaring profits, as the corporation continued to refine its winning formula for expansion, growth, and effective management. By 1990, Albertson's Inc. had become the sixth largest retail food drug chain in the nation, operating 531 stores in seventeen western and southern states. Staffed by more than 58,000 employees, Joe Albertson's supermarket empire thrived.[189]

The years of steady profit attracted outside investors, too. By January 1980, a West German investor and head of a booming supermarket chain, Theo Albrecht, had taken notice of Albertson's Inc., and he acquired 6.2 percent interest in the Boise based company for a price of $16 million.[190] Albrecht announced that he might purchase as much as 9.9 percent of the Boise company's stock. According to a filing made to the Securities and Exchange Commission, the Theo Albrecht Stiftung [Foundation] purchased 460,700 shares of Albertson's Inc. common shares. "The shares were purchased as an investment and that he doesn't intend to seek any change in the operations of the concern," wrote The Wall Street Journal. The purchases were made on the New York Stock Exchange between November 7 and December 27, 1979. Albertson's chairman and chief executive officer Warren McCain said that a representative of the Albrecht Stiftung told the company that "it's strictly a passive investment. We'll just have to wait to see what

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[189] Albertson's Inc., "1989 Annual Report," and "1990 Annual Report."

[190] On the Albrecht brothers and their supermarket empire see "Albrecht, Theo," in "Munzinger-Archiv/Internationales Biographisches Achiv," 1998.

that means."[191]

The Albrecht Group was described by Business Week as "a secretive pair of West German supermarket chains that is already racing one major U.S. grocery retailer to establish a national network of no-frill groceries." A year earlier, Albrecht had purchased Trader Joe's, an 18 unit specialty food chain in California. In 1976, it continued acquisitions in the United States and bought Benner Tea Co. in Iowa. Albrecht expanded its operations to some 85 "box stores," or "limited assortment" outlets, the type of store that it had introduced into Germany with so much success.[192]

Albertson's Warren McCain viewed the investment of the Albrecht Stiftung in his firm as a broadening of the German supermarket magnates holdings, and he was careful to point out, "There's no way they can get control of the company. We monitor changes in ownership very carefully. We can muster 51 percent in 15 minutes." McCain knew that an agreement had only days earlier been struck with Joe Albertson giving the company first right of refusal to purchase the 23 percent ownership he and his wife held, thereby ensuring that Albertson's management would remain firmly in control.[193]

The Albrecht Stiftung soon increased its holdings in Albertson's to the targeted 9.9 percent, and it agreed not to purchase more stock before February 14, 1985. Other arrangements were made. For example, the Theo Albrecht Stiftung agreed to vote its shares in proportion to the votes cast by other shareholders or

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191 "German Investor Has Bought 6.2% Of Albertson's," Wall Street Journal (January 3, 1980). "West German Trust Invests in U.S. Chain," New York Times (January 3, 1980).

192 "More U.S. Clout for a German Grocer," Business Week (January 21, 1980).

193 "Chairman of Albertson's Is 'Flattered' by Purchase," New York Times (January 4, 1980).

directors' recommendations. In short, it would not challenge company policy or direction, The Wall Street Journal reported. Furthermore, Albertson's Inc. obtained the right of first refusal on Albrecht's 731,200 shares, if it decided to sell them. Albertson's president told the press that Albrecht is "fully supportive of Albertson's present course and management." Theo Albrecht "has confirmed the previous public statement that the purchases are for investment and that Albrecht doesn't intend to make a tender for Albertson's stock or propose any form of business combination; the willingness to enter into this agreement fully reflects such intention."[194]

The relationship with the Theo Albrecht Stiftung proved to be amicable. "We have appreciated Albrecht's support of Albertson's present management since Albrecht first acquired its interest in 1980," CEO Warren McCain told The Wall Street Journal in April 1984. "We welcome their continued support as evidenced by this extension of our earlier agreement." At that time, the two companies had come to an agreement permitting the German firm to acquire as much as 12 percent of Albertson's stock.[195]

Analyzing the interest of the West German trust in Albertson's, a writer for Barron's commented simply: "Albertson's impressive growth hasn't gone unnoticed."[196] That growth had been impressive indeed. Writing in 1981, business reporter Frank Campenella summed up the gains: "Over the past five years, Albertson's has opened 132 conventional supermarkets, while closing 57. This year it will add a net of 13 outlets, to bring the count to 340." Most of the new stores had more floor space and, he wrote, "feature

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[194] "Albertson's Inc. Says German Holder Agrees Not to Boost Interest," Wall Street Journal (February 20, 1980).

[195] "Albertson's Amends Pact With 9.9% Owner; Stake Could be Raised," Wall Street Journal (April 26, 1984).

[196] Frank W. Campanella, "The Right Combination," Barron's (June 29, 1981).

many of the same items as do the larger combination units." Along with the growth in the number of stores, "The company, moreover, boasts 11 straight years of higher sales and earnings, and one of the food industry's top returns on stockholder equity." Critical to the corporate strategy has been carefully regulated growth, a close watch of expenses, and "an ambitious program converting stores into one-stop shopping units."[197]

Sales grew during fiscal year ending January 1981 by 13.7 percent, and earnings rose to $2.64 per share, a gain of 9 percent, after a LIFO charge of $2.3 million. The LIFO (an accounting method of "last in, first out," which was used to value grocery, non-food and liquor inventories) was dropped during the fiscal year, and that move affected 83 percent of the company's inventory. It also reduced earnings per share.[198] Even with the accounting change and its initial effect on earnings, Albertson's got off to a terrific start with sales shooting up by 14 percent to almost $814 million in the 13 weeks ending April 30th. Profit per share also went up to 66 cents from 58 cents a share, and by the following July, the profit per share was expected to rise to 70 cents.[199] As Warren McCain, President and CEO, wrote, this was due in large measure to the corporation's "ability to react to changing shopping patterns, spiraling inflation and a more sophisticated consumer" who looked for "well-run supermarkets," especially for larger supermarkets and large combination food-drug "superstores" with a friendly "shopping environment" offering "a wide array of food and general merchandise, including bakeries, delicatessens, pharmacies and even flow shops—a true one-stop shopping opportunity." In addition, while expanding the choices available to customers, Albertson's maintained a close watch over

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197 Ibid.

198 Ibid. "Albertson's," New York Times (February 13, 1980).

199 "The Right Combination."

operating and administrative costs.[200]

To a large degree, the surge in growth and profit came from the move to combination stores, "outlets offering such a bewildering assortment of goods and goodies," as one analyst referred to them. The concept had been pioneered by Joe Albertson in 1970 through the partnership with Skaggs Cos. By 1981, Albertson's operated 72 of the combination stores, and top corporate management looked to them to continue to lead the company to annual profits throughout the coming decade. Also contributing to the company's growth was the policy of leasing most of the stores--only 10 of the more than 400 stores are owned outright and the rest are leased. As Robert Boliner, vice chairman and chief financial officer, told Barron's, "We think we can use our funds more to our advantage in running our business, rather than investing in real estate."[201]

Still, the amount of capital expenditures remained large. In 1981, the projected figure was $62 million, up from the $59 million spent in 1980. Of the 1981 figures, $24 million was for new stores and $13 million for remodeling older stores. In line with company policy, fully 90 percent of its grocery stores were either newly constructed or completely remodeled during the past decade. The funds were also generated internally by the company.[202]

In 1982, Albertson's Inc. could proudly boast of its 13th straight year of record sales and profits, with figures of $3.9 billion and $58.4 million respectively. Earnings per share also shot up, gaining an average of 20 percent each year for the past decade. The key has been the combination stores and Albertson's early move into

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[200] Albertson's Inc., "Annual Report for the Fiscal Year Ended January 29, 1981."

[201] Ibid. Albertson's Inc., "Annual Report for Fiscal Year Ended January 29, 1981." Barry Stavro, "In the Bag," Forbes (December 5, 1983).

[202] "The Right Combination."

that promising area. As business reporter Barry Stavro wrote in Forbes: "The reward is a profit margin of 50 percent better than the wafer-thin 1% industry average and a 22.2% return on equity over the last five years." While the combination stores numbered only 143 of 423 outlets, they produced 65 percent of the profits.[203]

Albertson's Inc. also had a broad and responsive incentive program that ties profits to local management. A full 15 percent of each store's net profits went to that store's managers, including department heads. Some store managers in the early 1980s were even able to earn $100,000 a year, a whopping figure for someone in the grocery store business. Albertson's headquarters in Boise keeps tight rein on its stores, with much attention paid to details, such as cleanliness and no-clutter in the isles. The incentives and persistent attention have paid off handsomely.[204]

Another good example of the direction of Albertson's management is the fact that throughout the 17 states where it did business in the early 1980s, the company was not a market share leader. These states had two-thirds of the nation's population, and as McCain said, "that's all the geography we need." In fact, Albertson's had often moved into a new market, placing a store in a city with only a small cluster of merchants and thereby accepting a smaller share of the market. It is in their profitability that Albertson's stores shined.[205]

The surge in growth during the early 1980s was directed by president and chairman Warren McCain. Named chairman and CEO in 1976, he had held a number of positions within the company, as had many other top managers. McCain worked his way up through the Albertson's ranks, starting in the grocery business in the late 1940s. Back then, he worked as a store clerk to earn some extra money while studying electrical engineering at the Illinois Institute of

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[203] "In the Bag."

[204] Ibid.

[205] Ibid.

Technology. Following college and active duty in the Navy during the Korean War, he decided to settle in Idaho. Jobs were scarce, so McCain used his previous grocery experience to land a job with Mountain States Wholesale, an Albertson's supplier in Boise. From there, he moved over to Albertson's.[206]

Warren McCain remained with Joe Albertson ever since, working as an executive trainee, division manager, head of operations and company president before being named CEO in 1976. "That varied experience has stood him in good stead as he strives to heighten the supermarket chain's productivity, while expanding operations," wrote Financial World. His "leadership abilities are clearly reflected in the company's gleaming results." Since the late 1970s, earnings per share grew an average of 20.3 percent each year, while sales grew 18.7 percent. Compared with the rest of the grocery industry, where growth in earnings and sales went up by 14 percent and 13 percent respectively, Albertson's was well ahead.[207]

Inside the company McCain was known as a "hard-working, hands-on" executive who made sure he was involved in all phases of operations. He was especially interested in financial details. "He can tell what's wrong with a store just by glancing at the numbers on the profit-loss statement," a colleague stated. "He's made us all more aware that it's a numbers game."[208] McCain focused on cutting costs, whether by closing down unprofitable plants or adopting electronic scanners at the check-out counter. He also recognized the importance of steady growth, which led Financial World to remark, "his real soft spot when it comes to numbers concerns new stores, with McCain churning them out as fast as he possibly can." By 1983,

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206 "CEO of the Year Silver Awards. Playing the Numbers Game," Financial World (March 31, 1983).

207 Ibid.

208 Ibid.

the number of stores jumped from 292 to 420, the addition of about 18 each year during his leadership. He saw the need for more. "We need to accelerate our growth to 40 to 50 stores per year to keep ourselves going," McCain stated. By 1987, he expected Albertson's to be operating 600 stores, with $8 billion in sales, largely in the areas already staked out by the company.[209]

In 1982, McCain projected the sales for that year to pass the $4 billion mark, up from $3.84 in 1981. He predicted that sales would exceed $8 billion in five years, and during that period, the company would add 200 stores and hire an additional 15,000 employees. Capital spending for 1982 was also targeted at $77 million.[210] Later, in 1982, Albertson's issued 1,250,000 shares of new common stock. The funds raised were to be used to open new stores, including the first one in the Great Plains, and remodel existing ones.[211]

The gains in profit led Albertson's Inc. to announce a 2-for-1 stock split at the May 1982 annual meeting. In an address to shareholders, CEO McCain discussed projected growth and announced that the company expected to double its sales and profits over the next five years. For the year ending February 2, 1983, corporate profit amounted to $58.4 million, or $3.81 per share on sales of $3.94 billion. Even with a generally weak economy, Joe Albertson's supermarket empire continued to thrive. In 1982, sales rose 13 percent and earnings gained 20 percent. Furthermore, the company planned to expand beyond 418 stores in 17 states, with 33

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[209] Ibid. "In the Bag."

[210] "Albertson's Inc.," Wall Street Journal (June 1, 1982). "Albertson's Net Rises," New York Times (May 28, 1981).

[211] "Albertson's Inc. Registers 1,250,000 Shares of Common," Wall Street Journal (October 18, 1982). "Albertson's Inc.," Wall Street Journal (May 31, 1983). Albertson's Inc., "Annual Report for the Fiscal Year Ended January 28, 1982."

new ones coming in the next fiscal year.[212]

The steady gains continued to attract the attention of business and financial publications. In October 1984, for example, Progressive Grocer wrote: "Widely acclaimed as one of the best-managed chains in the industry, Albertson's is on its way to record sales and earnings in the fiscal 1984." The key to this success has been "its skill at operating four distinct formats that appeal to the one-stop shopping needs of consumers." Among its 432 stores, the breakdown is as follows: 255 conventional supermarkets, 69 superstores, 89 combination food-drug units, and 19 'Grocery Warehouse' markets.[213]

During the six months ending on August 2, 1984, sales rose again, reaching $2.3 billion, a full 11.4 percent higher than the previous year. Earnings did even better, jumping by more than 20 percent to $37.2 million. As business reporters observed, leading the way to higher profits were the combination and super-stores. From 1979 to 1983, the number of combination stores went from 48 to 89. In a related development, 23 superstores were added in fiscal year 1983 alone, and the company operated almost four times as many as five years earlier. These met a definite need in the market. As smaller versions of the combination food-drug stores, they required less land and actually served a number of areas better.[214]

At the Boise headquarters, top management continued to develop plans that called for more growth and expansion. During fiscal 1984, an additional 30 superstores, 11 combination units and one conventional market were to be opened. All were slated for

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[212] "Albertson's Inc.," Wall Street Journal (May 31, 1983). "Albertson's Inc. Says Net Rose 10% to 12%," Wall Street Journal (August 26, 1983). Albertson's Inc., "Annual Report for the Fiscal Year Ended February 3, 1983."

[213] "Another Banner Year," Progressive Grocer (October 1984).

[214] Ibid.

states already served by Albertson's, with the biggest push coming in Texas. "We are excited about our five-year plan," announced CEO McCain. "Sales will grow from $4.28 billion last year to over $9 billion. Earnings should grow proportionately. We plan to open 242 stores over the next five years. The future is truly exciting."[215] Gains came quickly. By the end of fiscal year 1984, Albertson's operated 432 stores in 18 western, mid-western and southern states, and that included the 30 opened this year, "the greatest annual square footage increase ever constructed by the Company," Warren McCain announced in the Annual Report. Sales continued to rise and passed the $4.25 billion mark.[216]

And Warren McCain's predictions proved correct. Writing about Albertson's in February 1985 issue of Barron's, a journalist reported that "the nation's seventh-largest supermarket chain, apparently has just bagged its eighth consecutive year of records share net and its 15th successive year of record dollar profits."[217] The figures were indeed impressive. For the 39 weeks ending on November 1st, earnings rose 15 percent to $1.67 a share (up from $1.45), and sales went from $3.1 billion to $3.5 billion. The gain came largely from a six percent rise in store-for-store sales. Total sales were expected to ring in at more than $4.7 billion, and the sum predicted for fiscal 1986 topped $5.2 billion.[218]

Albertson's Inc. surprised the supermarket industry and proceeded to boost sales when it launched a new low price strategy. The program started in early 1986 when the company closed its

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[215] Ibid.

[216] Ibid. Albertson's Inc., "Annual Report for the Fiscal Year Ended February 2, 1984."

[217] Mitchell Gordon, "Express Lane. Albertson's Keeps Earnings on the Rise With New Stores, Widening Margins," Barron's (February 18, 1985).

[218] "Express Lane."

Denver stores and reopened them with store-wide low prices, a move that touched off a price war among area supermarkets. The decision to pursue this new strategy came after carefully weighing the changing marketplace and the role of supermarkets. “We’re looking at this on a market-by-market basis. Every market has different characteristics,” vice chairman -- chief financial and corporate development officer Gary Michael told Advertising Age. “But our research told us that the market has been saturated with games and gimmicks and that consumer want simple, low prices. It’s not all that different from the ‘60s, when everyone dropping trading stamps. This is not a complicated business, if you listen to the customers.”[219]

The change over in Denver attracted considerable local attention and launched a local price war among the competing grocery stores. The change by Albertson’s was a daring move, but it came not without some warning. Albertson’s actually first introduced the new discount strategy in August 1986 in the Boise and Spokane markets. A month later, several other areas witnessed a similar change as discount Albertson’s came to Dallas, Baton Rouge, and Jacksonville.[220]

The shift in selected markets to discount shopping was accompanied by new advertisements emphasizing “more for less.” As a journalist wrote in Advertising Age, “Albertson’s advertising message changes abruptly in the markets where the discount strategy is introduced.” As Albertson’s placed more of its advertising revenue into television, “the new discount image features people speaking straight to the camera about how they detest gimmicks and yearn for everyday discount prices.”[221] The new ad campaign was created by Albertson’s agency Foote, Cone & Belding of Los Angeles, and the account manager said this: “From an advertising standpoint,

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[219] Simons, “Albertsons’ Discount Strategy.”

[220] Ibid.

[221] Ibid.

the 'more for less' campaign came from the recognition that we weren't the No. 1 guy. We've done extensive customer tracking since the late '60s, and it has become clear that customers are getting more price-conscious. If we wanted to improve our image with the consumer, we had to improve our price image." The new ads were in stark contrast to those they replaced. The old ads carried a snappy tune and the slogan, "We go out of our way for you," emphasizing the company's longstanding commitment to service and quality, which was in no way diminished. Talking about price was a step into an unknown territory.[222]

In fact, the shift away from the traditional theme of Albertson's advertising marked, analysts suggested, a recognition that the company had to increase its local market share in order to keep growing. For many years, the Albertson's chain did not "mind being No. 3" in a market, but by 1984, the company saw the rate at which it opened new stores slowing.[223] The annual report for 1984 identified what it termed a "shortfall" in new store openings. The company predicted that during 1985, an additional 30 to 32 new stores would open, but the actual number turned out to be 24. The slower pace of new store openings led one analyst to write: "They haven't been expanding as rapidly as I would like to see. But it's getting more difficult to find good locations" Profits also eased slightly.[224]

Writing in Advertising Age, a reporter commented, "this new ploy--a far cry from the chain's past service orientated image--seems destined to end up in other markets as well, although it has received a mixed response from securities analysts who follow the company."[225]

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[222] Ibid.

[223] Ibid.

[224] Ibid. "Albertson's: Another Banner Year," Progressive Grocer (October 1984), p. 50.

[225] Janet Simons, "Albertson's Discount Strategy Shakes Up Market," Advertising Age (April 28, 1986), p. 30.

The shift to discount pricing aimed at gaining additional market share, and analysts took notice. Although the new strategy had risks--another discount supermarket, Cub Foods, announced its intention to move into the Denver market in 1986--analysts believed that Albertson's "is smart enough" to pull it off and to increase its market share in Denver. With Denver contributing only about four to five percent of the company's revenues, Albertson's move was cautious, and "the change in strategy then is probably less important to Albertson's bottom line than it is to its image." The move to discount pricing led one analyst to conclude, "regardless of what happens, it looks like this quiet chain is emerging from the background to become a tough street fighter in the grocery wars."[226]

While Albertson's Inc. pursued new strategies in selected markets, another factor in the pattern of steady advance, along with normal growth and inflation, had been the impact of the store remodels. In fiscal 1984, 14 units underwent the million-dollars-per-store face lift, another 20 were done in 1985, and 20 more marked for remodeling in 1986 and each of the following four years. The impact was immediate and planned for: "they're designed to achieve sales increases of about 25% apiece, almost from the outset, and generally manage anywhere from 15% to 25% each," Gary Michael, Vice Chairman, told Barron's.[227]

During 1986, Albertson's Inc. planned to open between 30-34 stores, a significant increase over the 22 opened in the previous year. Total retail space throughout the chain was expected to reach some 17 million square feet, also a gain from 1985's 15.7 million feet. Even the new stores were quickly profitable, usually within three and 15 months of the opening. While some were profitable almost from the

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[226] Ibid.

[227] "Express Lane: Albertson's Keeps Earnings on the Rise With New Stores, Widening Margins," Barron's (February 18, 1985), p. 71.

start, others took two Christmas seasons.[228] The overall pattern has been impressive and strong, as sales and net earnings continued their climb. In fiscal year 1985, sales passed the $5 billion mark and earnings gained almost seven percent to more than $85 million.[229]

With the consistent profitability of the combination and super stores, it is not surprising that about two-thirds of the projected new openings in 1986 were to be super-stores, with each of these money-makers averaging between 42,000 and 43,000 square feet of retail space. The remaining third would be combination food and drug stores, each with about 60,000 feet. No conventional grocery stores were in the plans, nor were any of the "grocery warehouse" formats planned. Management was going with proven winners in store size and type. The same was true of location--there were no plans to enter new markets, because as vice chairman Michael said, "situated as we are in the fastest-growing states of the nation," there wasn't much of a need to go elsewhere. Albertson's Inc. operated 107 stores in California, 61 in Washington, 42 in Oregon, 51 in Florida, 32 in Colorado, 30 in Utah, 29 in Texas, and 23 in Idaho. According to Michael, "Florida, Texas, California are expected to register the biggest population gains in absolute numbers, in the coming decade, and that's where we've earmarked our expansion over the next 10 years."[230]

The gains of the early and mid 1980s prompted management in Boise to launch a vigorous program of expansion that they announced at the December 1987 Board Meeting and adopted by directors. The Five Year Plan called for an outlay of $1.5 billion, with

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228 Ibid.

229 Albertson's Inc., "Annual Report for the Fiscal Year Ended January 30, 1986."

230 Ibid. "Albertson's Inc. to Open Stores," Wall Street Journal (March 5, 1985). "Albertson's Inc.," Wall Street Journal (May 28, 1985).

most going to the construction of new stores (65 percent), and the rest to remodels or updating older stores (16 percent), distribution (12 percent), and store automation and the replacement of equipment.[231] The details showed just how ambitious top management had become--175 new stores were to be opened, mostly combination or super stores in areas currently served by Albertson's; the remodeling of 150 stores; the development of new programs for the use of in-store computers to reduce operating costs; and a number projects for the distribution system.[232]

Headquarters in Boise began implementing the plan almost immediately. That meant the opening or purchase of 44 stores during fiscal year 1988 and the remodel of 37 stores, an increase in square footage of more than 10 percent. These developments helped boost sales to more than $6.7 billion, a gain of more than 15 percent over the previous year. Earnings shot up almost 30% to $162.5 million.[233]

In late 1987, Financial World reported that "Albertson's is in the midst of what may be its most aggressive expansion effort yet." Floor space within the chain was to be boosted by about seven percent a year, as new stores were constructed and others purchased or remodeled. Along with that, the company strived to improve store productivity by about four percent. As an analyst with Piper, Jaffray & Hopwood observed, "combine all that with lower taxes and improved margins and Albertson's should see 15% earnings growth."[234] CEO McCain predicted that the company could grow more than 10 percent a year and hit $9 billion in revenues by 1992, thereby moving Albertson's from the position of eighth largest food retailer to sixth.[235]

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[231] Albertson's Inc., "1987 Annual Report."

[232]. Ibid.

[233] Albertson's Inc., "1988 Annual Report."

[234] Benoit, "Shopping for Value in Albertson's Shares."

[235] Ibid.

The growth was financed without borrowing. In late 1987, Albertson's had nearly $250 million in the bank, and its annual cash flow amounted to about $200 million. That meant the projected $225 million in capital spending during 1988, a 62 percent gain over the previous year, could be easily handled. The funds, CEO McCain told Financial World, would be used to finish construction of a distribution warehouse in Portland, Oregon, that will supply 100 stores in the northwest.[236]

Observers also noted the company's attention to detail in each and every store helped spur the record growth and earnings. For example, since fiscal 1977, the produce departments and service delis have been added to all new and remodeled stores. In addition, the on-premise bakeries, a feature since the start of the chain, are in about half of the units. Albertson's continued to provide healthy incentives for the store managers, and even the department managers, too. They received about eight percent of pre-tax earnings, which Albertson's believes "are unusually extensive for the supermarket industry, especially since they cover up to five department heads in each store beside the manager."[237]

Finally, at the end of fiscal 1985, Albertson's Inc. held about $190 million of cash and marketable securities, up from $158 in the previous year. The cash requirements for the next year would be provided for from these funds.[238]

Such gains led top management at Albertson's to develop plans to deter any hostile takeover attempt. In March 1987, even though it knew of no such efforts, the company's stockholders were advised that under certain conditions, they would be allowed to buy common stock at half price. "The plan is designed to force potential suitors to negotiation through Albertson's board instead of launching

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[236] Ibid.

[237] "Express Lane."

[238] Ibid.

hostile offers," The Wall Street Journal concluded.[239]

Some observers also became concerned that the ambitious expansion program might "just be a smoke screen for a takeover defense." The expansion was real, and its $5.4 billion of sales led to a 25 percent quarterly earnings gain in late 1987. The Institutional Brokers Estimate Service reported that per share earnings could reach $3.43, up 14 percent from the previous year. Furthermore, the company was, according to Financial World, "in the midst of what may be its most aggressive expansion effort yet." CEO McCain predicted a better than 10 percent annual growth and $9 billion in revenues by 1992.[240]

The astonishing success led Forbes to write in April 1989 that while "grocery store executives generally aren't happy campers these days," things at Albertson's Inc. were a whole lot different. The company had $6.8 billion in revenue in 1988, and its stores were located in 17 Sunbelt and western states. The 500th store opened in March 1989 in Temecula, California, just a day before the company reported that it earned $163 million the previous year, and that was more than any of its rivals.[241] In fact, by 1989, the company could boast of 19 straight years of increased sales and profits. The company's net margins, 2.4 percent, were about twice the industry average.

The success led Forbes to ask, "How does McCain do it?" It offered some answers. Albertson's stores were located in the fastest growing markets in the nation, especially areas such as Florida and California where the company had 85 stores and plans called for

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[239] "Albertson's Adopts Plan To Deter Hostile Takeover," Wall Street Journal (March 3, 1987). Linda Sandler, "Acquiring Firms Are Finding Various Reasons To Pay Handsomely for Their Targets in 1987," Wall Street Journal (March 17, 1987).

[240] Benoit, "Shopping for Value in Albertson's Shares."

[241] Mark Beauchamp, "Food for Thought," Forbes (April 17, 1989).

another 30 over the next five years. Even more important was the fact that McCain "does not want to be the biggest supermarket chain in the country, only the most profitable." That helps with strategic planning. Albertson's stores are often situated in small cities and suburbs where enough cheap land is available for the super stores. Furthermore, to keep labor costs under control, McCain permits five service departments, at the most, and these include a pharmacy, lobby (often with video rental), deli, fish and meat department, and a bakery.[242]

Forbes also noted the use of incentive pay for managers who received bonuses tied to profits. In 1988, these amounted to $27 million paid to 3,800 of the 50,000 employees. "Meat and produce managers, for example, are rewarded as if they owned their departments," and that was reflected in the advertising.[243] Bonuses meant that some store managers earned a hefty $100,000 per year. Cost cutting measures also helped the bottom line. Albertson's has fewer warehouses than most competitors. That also worked in its favor through back-hauling which meant, for example, if a truck took a load of ice cream from the plant in Boise to Los Angeles, it returned with fresh produce.[244]

By 1989, Joe Albertson's supermarket empire was serving more than a million customers every day. And just as when he opened the first store fifty years prior, training and motivating employees at all levels was paramount. Training programs for new, entry-level employees was extensive. Opportunities to grow and develop with the company, all the time while serving the customer, continued. Training programs included, for example, "The Ten Minute Trainer," which helped staff set career goals and to work toward achieving corporate goals, too; "The Career Advancement Program,"

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[242] Ibid.

[243] Ibid.

[244] Ibid.

on-the-job training for prospective managers; "Supervisor Skills Center," offering week-long classes; "Store Director Training Program," a more extensive nine week program; and "Management Development Centers" that served to identify future leaders and assessed their strengths and weaknesses.[245]

Still, the company's biggest advantage, as Forbes wrote, "may be that Albertson's debt stands at $177 million, or around 22% of capital." That was a lot better than most other grocery store chains where debt made up of almost 80 percent of some company's capital. This, too, worked to Albertson's advantage, for as McCain noted, high interest and steep debt payments meant competitors could not aggressively remodel or expand their stores and would keep them from moving into new markets. Forbes asked: "What's to deter a raider?" It provided the answer: "Plenty." Joe Albertson held about 16 percent of the company's 67 million shares, worth an estimated $440 million. Plus, Theo Albrecht held an additional 11 percent, acquired in 1979 for about $37 million. By 1989, that investment was worth $250 million. As McCain put it, the stock price "is our best defense."[246]

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[245] Albertson's Inc., "1988 Annual Report."

[246] Beauchamp, "Food for Thought". Norm Alster, "One Man's Poison...," Forbes (October 16, 1989).

CHAPTER 7

"OPEN SPACE ALONG THE RIVER"
THE ALBERTSONS AND THE COMMUNITY

Since opening the first store in 1939 in Boise, Joe Albertson, his family, and his supermarket empire has paid close attention to the communities they serve. After all, service to the customer has long been the watchword at Albertson's, and that has led the company to a variety of community service programs. One of the most significant came to Boise. In November 1978, rumors of a purchase by Joe Albertson of an undeveloped 31 acre parcel of land along the Boise River began to circulate. While the city had long wanted the land as a park, the cost was simply beyond its fiscal resources. Then, a source at City Hall told Boise's Idaho Statesman that Joe Albertson might donate the land to the city for a park. When asked about this, Joe Albertson responded in his typically understated manner: "That is not definite, and I'm not ready for any announcement on it. You'll be notified in due time."[247]

Not until December 1979 did the formal announcement come: Joe Albertson had purchased the land, and he donated 41 acres to the city "with the provision that the parcel be developed into a municipal park within ten years."[248] The site had an appraised value of $3.6 million, and Mayor Dick Eardley announced, "It's a valuable piece of land that's coming to the city free and clear." The park would be named Joe and Kathryn Albertson Park, and the plan was to develop it as a recreation area for pedestrians and bicyclists. "I envision it as a walk through park with just grass and trees, with no roads or baseball diamonds," Joe Albertson told the local newspaper. "We thought it'd make a nice addition to the city of Boise. The city

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[247] Rick Ripley, "Albertson May Donate Land for Boise park," Idaho Statesman (November 1, 1978).

[248] Gary Strauss, "Joe Albertson Gives 41 Acres to Boise for Park," Idaho Statesman (December 13, 1979).

has always been kind to Kay and I in the 40 years we've been here."[249]

The Albertsons remained committed to the community and supported a variety of other activities. In January 1989, Idaho Public Television announced a $250,000 donation from Albertson's Inc. and Joe and Kathryn Albertson, for a television history series. The funds would aide production of a 13-part series, "Proceeding on Through a Beautiful Country: A Television History of Idaho." According to a spokesman for Idaho Educational Broadcasting System, "J.A. Albertson, founder, and Warren E. McCain, chairman of the board of Albertson's Inc. stated their chief purpose in funding the project was to leave a lasting legacy for Idaho children."[250]

A few months later, the announcement was made that Albertson's Inc. would give $6 million to Boise State University, the largest corporate donation ever to the university. The funds were earmarked for expansion of the library. As Warren McCain said at the dedication, "Because this is the state's 100th birthday and Albertson's 50th, we thought it would be in keeping with spirit to do something spectacular for the university and the state."[251]

Along with the largesse of Joe Albertson, which amply documents his willingness to give back to the community from which he and his company has gained so much, stores throughout the chain have undertaken a variety of community orientated programs. The company established the Warren E. McCain Community Volunteer

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[249] Ibid. Craig Quintana, "Community: Former Pasture Becomes Unique, Award-Winning Park," Idaho Statesman (May 1, 2002).

[250] "Albertsons Donate $250,000 to TV Series on Idaho History," Idaho Statesman (January 30, 1989).

[251] Nancy Reid, "Albertson's Gives Boise State Library $6 Million Donation on Centennial," Idaho Statesman (July 4, 1990). Pat Jones, "$8-10 Million Addition Slated at BSU Library," Idaho Business Review 12(November 16, 1992), p. 1.

Award that "recognizes associates throughout the Company for their outstanding community involvement and spirit of volunteerism." Throughout the Albertson's empire, thousands of employees have generously given their time, energy and skills to local charities. Associates in the Midwest Region, for example, compiled more than 220,000 hours of volunteers service in 1999 alone.[252]

One of the most innovative resulted from conversations between a store manager and a local high school teacher of a class on marketing in Lewiston, Idaho. As a result, some 150 high school juniors and seniors take over and run a 42,000 square foot Albertson's for two days each year.[253] In describing the annual event that began in 1983, store manager Doyle Jones said: "Any community-based business can do it. Grocery stores are a good place because everybody buys groceries, and that gives the store the widest possible public relations benefit from the project." Jones added, "If you want a truly educational experience for yourself and your employees sponsor a student takeover of your store." Before the "kid shift takes over," each of the students participating had about 14 hours of classroom preparation and some in-store experience. Jones even provided some Albertson's training films, and said, "This helps the students choose which departments interest them and acquaints them with the duties they will be expected to perform."[254]

Once the preparations had been made, the students operated the store for two days. Marketing instructor Rich Young went to the store to make sure the students' program operated as planned. Regular employees stayed in their usual jobs, just to handle any special needs. "Otherwise, the students take over completely with the regular employees as backup," Jones told Progressive Grocer. The

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[252] "Volunteerism," www1.albertsons.com.

[253] Helen Kitchen Branson, "The Kid Shift Takes Over," Progressive Grocer 66(May 1987), p. 187.

[254] Ibid.

students performed every job, in every department, from top to bottom. The "store director," for example, was selected from four or five students. Department managers came from the juniors or seniors in the marketing class.[255]

How effective was the program? Well, enrollment in Young's marketing class shot up from 19 when he launched the store takeover to 146. The students' takeover was split into two shifts to accommodate all those interested. Both Young and Jones attributed much of the program's success to community support. The benefits to the students and the store have been considerable. Marketing students learned a lot about supermarket operations, and the experience of operating a store, if only briefly, gave them an opportunity to find out for themselves if that was where they wanted to work. For the Albertson's store in Lewiston, it meant a chance to screen potential employees. The gains went beyond these aspects. "Business definitely went up," remarked Jones. "We experienced above-normal percentage of increase for several weeks after that. We feel that we get new faces in the store from the families, friends and neighbors of the students in the takeover." And he added, "It's one of the greatest good will moves we've ever made."[256]

The benefits amount to more than increased sales, and the program could be replicated in a number of other communities. "There is no reason at all why a store manager couldn't offer this opportunity to the schools. Teachers are always on the lookout for real-life, on-the-job experiences for their students," Jones told Progressive Grocer enthusiastically. "These situations are hard to find simply because too many store managers do not realize that, for the small amount of time and money invested, there are countless benefits to the store and the students."[257]

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[255] Ibid., pp. 187-188.

[256] Ibid., p. 188.

[257] Ibid.

Kathryn Albertson's transfer of much of her stockholdings in Albertson's Inc. to the charitable foundation that she and her husband set up in 1966 revolutionized giving within Idaho. In 1997, Kathryn Albertson gave a whopping $660 million in stock to the foundation, increasing its assets from $30 million to $700 million and boosting its grant awarding capacity overnight to $35 million a year. In June 1997, the foundation announced how it would allocate the money--in accordance with the wishes of Mrs. Albertson, the funds were to be used for the benefit of education in Idaho.[258] The gift propelled Mrs. Albertson to the second position on Fortune magazine's list of the nation's top philanthropists in 1997, which just shows the magnitude of her generous act and gives a hint of the differences the Foundation was to make in Idaho.[259]

The Albertsons had long been interested in and committed to education in Idaho. Over the years, Joe Albertson had quietly provided scholarships to employees and their family members, and couple had provided generous gifts to Idaho's universities. They even bailed out their financially troubled alma mater, the College of Idaho. Now, Mrs. Albertson saw the opportunity to introduce far-reaching and much needed improvements to Idaho's school system. Mrs. Albertson and the foundation did not mean to imply that Idaho's school system was "broken." The funds were to supplement the schools' budgets, to help school districts and teachers to obtain the newest technology, and to adopt the newest teaching aids. "There are many educators who have great ideas rolling around in their heads that they simply haven't had money to fund," Albertson

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[258] "Charity's Burden: How To Spend $35 Million," Spokesman Review (Spokane, Washington) (July 9, 1997). "Albertson's Annual Gifts Boost N. Idaho Schools," Spokesman-Review (August 2, 1998). See also "The Business of Change," Christian Science Monitor (November 3, 1998).

[259] "Albertson No. 2 On Fortune's Top Philanthropist List," Spokesman-Review (January 15, 1998).

Foundation director Sharron Jarvis told the press. The Foundation had the opportunity to make a real difference in the lives of young people throughout the state, and it hoped to enable Idaho to "become a model of educational excellence to other states." Jarvis added, "We'd also like Idaho to become known for its innovative ideas and readiness to meet new demands."[260]

The Foundation quickly developed a strategy, and it delivered grants: first, direct awards for education initiatives to improve student achievements, and second, to support innovative or creative ideas. Already in 1997-1998, the Foundation got a number of projects going, including providing materials for a read-at-home project, as well as funds to purchase books for school libraries, new reading software, and curriculum preparations. The early emphasis was on reading and obtaining new technology, and much of the funds went directly to local school districts.[261] In fact, large sums went to local school districts. The Coeur d'Alene School District, for example, received a grant of $521,100 to fund a teacher mentor program designed to improve reading, and the district was to be awarded $173,000 annually for three years to develop a network for improving teaching.'[262]

In May 1998, the Foundation announced a $110.3 million gift to the state's public schools, "the largest foundation donation ever made in a single state," The Christian Science Monitor announced. This was the most generous example of a recent trend for

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260 "Charity's Burden." "Donations Reflect Albertson Style," Spokane-Review (August 3, 1998).

261 "Albertson's Annual Gift." "Bonner County School District Lands $381,152 Albertson Grant," Spokesman-Review (October 9, 1998). "Arco Schools Receive Grant of $200,000," Lewiston Morning Tribune (July 10, 1998).

262 "Program Targets Reading Skills," Spokesman-Review (September 19, 1997).

philanthropists to donate to grade schools and high schools.[263] The funds were provided incrementally, and in 1998, the Foundation poured nearly $56 million into education in Idaho, a sum equal to about six percent of the state's public education budget. Most of the funds, some 38 percent, went to providing schools with computer-assisted reading programs.[264]

In addition to providing money directly to the school districts to improve teaching, reading, and to aid in the purchase of the most recent computer technology, the Foundation provided grants to the state's colleges and universities, to programs designed to improve teaching. In January 1998, the Foundation announced that it would offer up to $900,000 in seed money to each of the states nine colleges and universities "if they are willing to take risks to improve teacher training," The Spokesman-Review reported.[265]

What seemed to most in Idaho and observers of philanthropic gifts throughout the nation as an unprecedented act of generosity, the transfer of much of Mrs. Albertson's wealth in the supermarket empire built by her late husband to a charitable foundation, struck the Idaho Superintendent of Schools Anne C. Fox as a big step toward outside interference in Idaho and its schools, and she did not like it. The issue that sparked the concern was the decision of the state board to become a member of the National Commission on Teaching and America's Future, an organization that supported teacher training. The Albertson Foundation agreed to cover these costs. According to newspaper accounts, Fox maintained that "Idaho patrons don't subscribe to the national agenda driving the commission." A board

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263 "New Wave of Philanthropy Targets Struggling Schools," Christian Science Monitor (September 22, 1998).

264 "Albertson Foundation Makes Up Huge Chunk of Idaho Education," Lewiston Morning Tribune (May 30, 1999).

265 "Albertson Foundation Rewards Innovations in Public Education," Spokesman-Review (January 19, 1998).

member responded, telling Superintendent Fox at a meeting in Boise, "this is not evil." And he added, "This is a group of people trying to help us help our teachers. If we can't do that because we see black helicopters coming over the mountains, we're in real trouble."[266] Some "ultraconservative" education activists campaigned to slash the state education budget in 1998 by $100,000 because of support from the Albertson Foundation. "Why should the foundation be allowed to dictate the exiting standards for Idaho students," asked the editor of the O.B.E. Predictor in Twin Falls.[267] A Republican candidate for the post of chief of the state schools joined the discussion and announced that institutions such as the Albertsons' foundation should "disclose the purposes of their grants to the schools," the Lewiston Morning Tribune reported.[268] In the face of such wild allegations, a number of sober thinkers came forward and reminded critics that the gifts came with no strings attached, and even Fox acknowledged, "All I have heard is positive wonderful things that they have done for the schools."[269]

In spite of the allegations and publicity they generated, the Foundation held to its mission, to the wishes of Mrs. Albertson, and continued to pour money into Idaho's schools. During 1999, most of the funding went to programs to improve education through, for example, the purchase of computers and providing for additional teacher training, a total of $24 million beginning that year. Over the

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[266] "Idaho Board of Education - Board Member Tells Fox There is No Hidden Agenda," Lewiston Morning Tribune (January 28 1998). "Idaho to Join National Teacher Program," Spokesman-Review (January 28, 1998).

[267] "Ed Activists Assail Albertson's Grant," Lewiston Morning Tribune (January 30, 1998).

[268] "Black: Grants Ought to Have No Strings," Lewiston Morning Tribune (May 15, 1998).

[269] Ibid.

next three years, the Foundation committed to providing some $80 million to integrate technology into the classroom. The Foundation made its direction clear--"we're not here for enhancement," executive director Jarvis stated. "You can't enhance if the basics are missing."[270] In 1999, the Foundation awarded $45.2 million with most of the funds going to improve education through technology.[271] The Gem State, and especially its children, continued to gain from the generosity of Joe and Kathryn Albertson, a couple who never lost their connection to their home state.

The Foundation was shaken in 1999 by the serious drop in the value of Albertson's Inc. stock, with its endowment losing fully one-half its value, a precipitous loss. The stock price fell from more than $62.00 in January to about $32.00 in late December. The Foundation held almost its entire endowment in Albertson's stock, and it saw this drop nearly in half, from $1.2 billion in December 1998 to $620 million a year later.[272] Even with this drastic reduction in its endowment, the Foundation gave out $45.2 million in 1999, with most

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270 "Computers in Schools Are Paying Off," Idaho Statesman (January 16, 1999. "AlphaSmat Intelligent Keyboard Selected by Albertson Foundation to Improve Technology in Education," Business Wire (March 10, 1999. "Idaho Schools Score 'A' for Technology," San Francisco Chronicle, (March 13, 2000). "Albertson Foundation Won't Fund Basics," Idaho Statesman (January 14, 1999). "Grant Brings Computer Technology to Teachers," Spokesman-Review (March 25, 1999). "Teachers Will Log on to High-Tech," Idaho Statesman (April 27, 1999).

271 "Albertson Foundation Gives Away $45.2 Million," Idaho Statesman (June 6, 2000).

272 "Ed Foundation Loses Nearly Half its Endowment," Idaho Statesman (December 24, 1999). "Falling Stock Cuts Education Endowment Nearly in Half," Lewiston Morning Tribune (December 25, 1999). "Endowment's Dive Means Drop in School Funds," Idaho Statesman (January 13, 2000). "Stock Plunge Crimps Education Plans," Times-News (Twin Falls) (January 13, 2000).

going to improve education through technology and training.[273] Overall, between 1997 and 2000, the Foundation awarded $146.6 million to improve Idaho education, with funds going directly to the local school districts and universities which used the money to boosting technology, reading programs and teaching training. This enormous generosity enabled many school districts to “do something that we had not been able to do,” a Boise School District board member told the press,[274] namely to purchase additional computers and provide teachers with further training. Yes, the wealth created by Joe Albertson and his supermarket empire went back to help those communities, those Idahoans, who had helped get his business going and keep it strong for so many years.

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[273] Bill Roberts, “Albertson Foundation Gives Away $45.2 Million,” Idaho Statesman (June 6, 2000).

[274] Bill Roberts, “Education: Lost Dreams Helped Form Albertsons’ Philanthropy,” Idaho Statesman (May 1, 2002).

CHAPTER 8

"THE GIFT WILL ENSURE THAT THE COLLEGE WILL LIVE" JOE AND KATHRYN ALBERTSON RESCUE THEIR ALMA MATER

Over the decades since Joe and Kathryn Albertson met at the College of Idaho in Caldwell, this small, liberal arts school had gained national recognition for the excellence of its academic programs. But the 1970s were difficult years for small, independent colleges throughout the country, as costs rose sharply and competition mounted from outstanding state institutions. By the summer of 1977, the College of Idaho was struggling and barely hanging on financially. The costs and expenses of maintaining a private liberal arts school in western Idaho were becoming prohibitive. Even with its fine reputation, the school faced the real possibility that it might have to close its doors. Then, in the summer, an anonymous donor stepped forward and awarded the college a $1 million contribution. Later that year, it was made public that Joe Albertson and his wife Kathryn, who met at the College of Idaho in the 1920s, were the benefactors. This was to be just the beginning of their support. The Albertsons recognized the merits of the College of Idaho and were determined that it continue to offer outstanding educational opportunities for many yeas to come.[275]

Financial trouble at the College of Idaho had been brewing for some time. In May 1977, William C. Cassell, president of the college, went to Joe Albertson to advise him that he was resigning his position. By the time he got back to his office, there was a message awaiting him: call Mr. Albertson. Cassell telephoned and learned that Joe Albertson would present a gift of $1 million to the college on the condition that Cassell remain as president. "The fact that he agreed to stay and see this thing through influenced me to a

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[275] Bruce Spence, "It's Joe Albertson's Million Dollars," Idaho Statesman (December 21, 1978).

great degree on the size of the gift and the time that I gave it," Joe Albertson told the Statesman.[276] The donation took care of the college's debts, with half of the $1 million going to retire debt and the other half into general operating fund. Now, as Cassell told the Boise newspaper, "I don't have to get up every morning and wonder whether we're going to be here."[277]

Only later in the year, however, did Joe Albertson come forward and acknowledge his gift to the college. When asked why he waited, he answered, "I thought it would be a good idea to save it until Christmas. There were a lot of reasons we had to wait to announce it. I don't think I want to keep you here a couple of days to tell them all." But Joe Albertson did mention a few: the school is a "high-caliber liberal arts college," and "that, coupled with the fact that without the aid it might have been necessary for them to close their doors." Another factor was that "President Cassell had done such an outstanding job at the College of Idaho, balancing budgets and so on. I thought it was only fair that he should remain as the head of the college—and he was happy to do so."[278]

The strong support from the Albertsons did not stop with this initial gift, nor did the financial difficulties of the college. The spring 1984 meeting of the college's board of directors reported that the deficit had deepened. The report also noted that "the special fund solicitation from Mr. [J.R. "Jack"] Simplot and Mr. Albertson creating $225,000 in new funds to help solve our deficit problem was booked in May."[279] At the same time, enrollment was up from the previous year and other positive news was that the college had an endowment

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276 Spence, "It's Joe Albertson's Million Dollars."

277 Ibid.

278 Ibid.

279 Quoted in Louie W. Attebery, The College of Idaho 1891-1991: A Centennial History (Caldwell, Idaho: The College of Idaho, 1991), p. 337.

of about $2 million. The board saw that increasing the endowment would help solve the chronic budget overruns.[280] In November 1984, Joe Albertson joined forces with Jack Simplot and contributed an additional $400,000 to the college. Each donated $200,000, and the money would be used to help balance the college's budget for the year ending 1984.[281]

As was the case with many small, private, liberal arts colleges, the College of Idaho remained dependent, if it hoped to survive, on donors such as Joe Albertson. The college's most successful alumni came repeatedly to its rescue. In November 1985, it was announced that Joe Albertson would give the college 100,000 shares of stock, a gift worth about $3 million. At the fall board of trustees meeting, the chairman announced the gift and stated that it was "directed to the endowment in a manner making it possible to remove the debt to the endowment, to computerize the campus, and to allow for salary increase to faculty and staff, [erasing] the C of I's indebtedness and also [diminishing] the shortfall of $160,000 in our current operating budget reported at the October meeting." The auditor called it a "life-saving gift."[282] President Arthur DeRosier stated simply: "The gift will ensure that the college will live." According to reports, the gift would be used to purchase computers and to build-up the school's endowment to some $8.5 million, up from a between $500,000 and $600,000 five or six years earlier. When contacted by the Boise newspaper at his home, Joe Albertson did not want to comment.[283]

Support came from Joe and Kathryn Albertson and other

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[280] Ibid., p. 338.

[281] "$400,000 Donated to C of I," Idaho Statesman (November 11, 1984).

[282] Quoted in Attebery, p. 341.

[283] Harriet Guthertz, "Albertson Gives C of I $3 Million," Idaho Statesman (November 1, 1985).

business leaders who gave $23.5 million in a five-month period in late 1986, saving the college from bankruptcy. The Albertsons continued to come to the aid of the College of Idaho whose financial woes persisted. In early 1987, the Executive Committee of the Board of Trustees deliberated and decided not to publicly announce the gift of one-million dollars that Albertson's Inc made to the college's endowment. Discussions between the College of Idaho and the Albertsons continued and their financial support grew. At the March 20, 1987, meeting of the Trustees, a gift of thirteen million dollars from Joe and Kay Albertson was announced, just as President Arthur DeRosier announced his resignation. Having gotten the College on sounder financial footing, he decided it was time to move on.[284]

There was still much to be done before the College could feel financially secure again. Board of directors' member Robert L. Hendren, Jr., a successful businessman in Boise, agreed to lead the drive to secure a $50 million endowment. Hendren, who joined the College of Idaho's board in 1979, soon encountered a major donor, Joe Albertson, who was prepared to make another major contribution. But Joe Albertson told Hendren that the College needed at this moment a leader with business experience and asked, "Why don't you do it?" As Hendren recalled, Joe Albertson told him to "Take it or leave it." Hendren did not need much time to decide. A committed backer of the College of Idaho, he accepted the challenge.[285]

By late October 1987, the College had strengthened its financial position and at last emerged from underneath the burden of

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[284] Peter Monaghan, "With Help From Philanthropists, Alumni, Politicians and Business Leaders, A Turnaround at College of Idaho," The Chronicle of Higher Educations 37(January 16, 1991), p. 33. Attebery, College of Idaho, pp. 346-34, 358. Ben Gose, "Meeting Community Needs," The Chronicle of Higher Education 49(August 1, 2003), p. 23.

[285] Monaghan, "With Help From Philanthropists," p. 33.

debt, only a short time after HUD threatened to close the College because of default on a loan. Joe Albertson and Warren McCain, a member of the Trustees, were joined by donor Jack Simplot and Governor Cecil Andrus for a symbolic burning of the mortgage on the college.[286] The example of Joe Albertson's generosity carried over to his company and to his senior executives. Warren McCain, already a Trustee of the College, was also a donor. In the spring of 1990 he donated $5000,000 for an endowed chair in the humanities. The Bernie McCain Chair in the Humanities, created in honor of his wife, Warren McCain announced, "not only reflects my commitment to the College of Idaho and the private liberal arts education the school so ably provides, but it also represents the strong support of the McCain family members who have attended the C of I."[287]

The College of Idaho continued to gain attention for its academic excellence and, more recently, for the prowess of its student athletes. In the spring of 1990, Joe and Kathryn Albertson announced at a press conference their gift of an additional $13.5 dollars for the construction of two new buildings. The new home of the J.A. Albertson School of Business and International Studies was to encompass 25,000 square feet and house a "100-seat lecture hall, an auditorium, classrooms, seminar rooms, a computer center, a study area, a student advising center, a resource library with four audio rooms, faculty and administrative offices, a faculty lounge and a conference room." The second building, the J.A. Albertson Activities Center, was to be a 75,000 square foot activities center, replete with a swimming pool, weight room, facilities for intramural and inter-collegiate competition, offices, locker rooms, and "the finest of contemporary sounds systems." Ground-breaking ceremonies came on October 12, 1990. The following year, both the J.A. Albertson Activities Center and the Kathryn Albertson International

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[286] Attebery, College of Idaho, p. 355.

[287] Ibid.

Center were opened. In an expression of the deep appreciation of the College to J. A. Albertson, the Faculty Assembly at its April 26, 1990, meeting declared that "The College of Idaho's position of leadership in regional higher education has been secured through the recently announced major gifts from J.A. and Kathryn Albertson."[288]

In recognition of the unprecedented financial support received by this small, liberal arts school, the Trustees decided in mid-November 1991 to change the name to the J.A. Albertson College of Idaho. As The New York Times wrote, "despite its small size, it has produced five Rhodes Scholars, two governors, a Pulitzer Prize-winning historian and the founder of America's sixth-largest food and drug store chain, Albertson's Inc. Joseph and Kathryn Albertson, who met as students at the college, have given it more than $35 million. Hence, the name change in Mr. Albertson's honor."[289]

With the college back on solid financial footing, the Albertsons and other major donors, especially Warren McCain and his wife Bernie, provided funds for additional facilities. In March 1997, for example, the McCains challenged Albertson College president Robert L. Hendren, to raise $1.5 million by December 15, 1997, a sum that they would match. President Hendren succeeded and at the February 1998 ground breaking ceremony for the McCain Student Center the chairman of the Board of Trustees, Dale Dunn, told the audience that "for a team that accomplished so much together in business, isn't it fitting to have the McCain Student Center on the Albertson College campus today." Warren McCain added, "I want to thank the couple that fell in love with this college and each other over 70 years ago. They believed this area needed a liberal

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[288] Monaghan, "With Help From Philanthropists," p. 33. Attebery, College of Idaho, pp. 367-368.

[289] "That's College of Idaho, Spelled 'Albertson'," New York Times, November 13, 1991. "College of Idaho Gets a New Name," Chronicle of Higher Education 38(December 11, 1991), p. 5.

arts college and they made sure it kept going. Joe always said, ‘Leave everything and everyone a little better than when you found them.’ We’ve accomplished that at this college.” The Center opened on November 2, 1998.[290]

[290] “Albertson College Breaks Ground for New student Union,” QUEST, spring 1998,and “College Community, Friends and Supporters Christen McCain Center,” QUEST, spring 1990, www.albertson.edu/comm/webquest/spring98mccain.ht.

CHAPTER 9

"NOT THE BIGGEST ONLY THE MOST PROFITABLE" OPERATIONS IN THE 1990s

By 1990, the decades of steady growth and deliberate expansion had made Albertson's the sixth largest retail food-drug chain in the United States, operating 531 stores in seventeen western and southern states. The figures posted by the Boise based corporation were indeed impressive as sales passed the eight billion dollar mark by the end of 1990, a gain of almost 11 percent over the previous year, and operating profits soared to $375.6 million. During the year, Albertson's opened 31 new stores and remodeled 38 others, as the company followed a well tested corporate policy.[291] A nice start for the decade.

To sustain the steady rate of growth, the Board of Directors adopted in 1989 a new Five-Year Plan in, which called for $1.88 billion in capital expenditures. Most of these funds, $1.4 billion, were earmarked for the opening of 230 new stores, as the corporation sought to increase its presence in the 17 states already served. Another $254 million from the Five-Year Plan was earmarked for the remodel of 175 stores, thereby keeping 95 percent of the stores' square footage fully up-to-date and modern throughout the supermarket empire. Additional funds, $68 million, were for the replacement of equipment, and finally, $102 million was to be used to enhance the distribution system.[292] These measures were essential to keeping Joe Albertson's supermarket empire competitive and attractive to investors in a decade of considerable challenge.

The corporation faced other challenges. In November 1990, Warren McCain, chairman and chief executive officer of Albertson's announced that he would retire as of February 1, 1991, but he would continue to serve as chairman. His career spanned 31 years, and he

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[291] Albertson's Inc., "1990 Annual Report."

[292] Albertson's Inc., "1989 Annual Report."

worked closely with Joe Albertson, managing and directing the careful growth that led the Boise based supermarket chain to the position of sixth largest in the nation. McCain was typical of many top managers at Albertson's. He joined the company in 1959 as a general merchandise supervisor, attended the company's executive training program, and in 1967, became a district manager, as his talents were recognized. A year later, McCain was appointed executive vice president, operations, and in 1974 he became president. Two years later, he began serving as chairman and chief executive. In 1990 and about to turn 65, McCain decided it was time to "increase some of my outside activities." The future looked bright for Albertson's. "The company is in excellent shape, and we have strong management in place," he told Supermarket News. McCain was highly regarded, "a very smart and skilled food retailer, who is good at instilling Albertson's philosophy throughout the management team," wrote an analyst with New York's Oppenheimer & Co. "His biggest strength is his ability to attract, motivate and retain good leaders."[293] Other changes in top management followed.

In December 1990, Gary Michael was named chairman and chief executive officer at Albertson's. Also promoted was John Carley, a 40-year Albertson's veteran, to the position of chief operating officer. Michael had been with Albertson's for more than 25 years, serving in a number of finance, real estate and retail positions, and since 1984 as vice-chairman.[294] Industry analysts held Michael

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[293] "Albertson's Warren McCain To Retire as Chairman, CEO," Supermarket News 40(November 12, 1990), pp. 2, 57.)

[294] Richard Turcsik, "Albertson's Chairman-Elect Faces New-Market Goals," Supermarket News 40(December 10, 1990), pp. 1, 53. "Albertson's Appoints Four to New VP Posts," Supermarket News 41(January 7, 1991), p. 6. For brief, biographical information on Albertson's top management, see "Albertson's Inc," Dun & Bradstreet, Reference Book of Corporate Managements 1993 (Parsippany, NJ: The Dun & Broadstreet Corporation, 1993) , pp.

in high regard, and they did not anticipate any major shifts or changes to the formula developed under Warren McCain that had proven so very successful. "Michael will provide strong leadership for the company, and I anticipate that there will be no radical departure from the company's current growth-oriented strategy," a San Francisco based analyst told Supermarket News.[295]

The new management team, analysts believed, would continue to emphasize growth through the construction of new combination and drug stores, as the company moved into new markets, particularly in Florida and possibly the Tucson area. Part of the plan called for the acquisition of other supermarkets, if the opportunity arose. Gary Michael was optimistic for Albertson's future. "Albertson's is a company in great financial shape with stores constantly being opened and renovated," he stated. "Our challenge is to keep doing what we've been doing. I don't anticipate any operational changes."[296] Within a few months of taking over, Michael announced bold plans for the next five years. He told shareholders at the June 1990 meeting that Albertson's planned to speed up its growth, with the aim of opening 50 new stores a year on top of the 523 it currently operated. Much of the financing for the expansion would come from the reservoir of cash held by the company. The steady and unrelenting course of growth led some analysts to ask Warren McCain what might disrupt these plans. "There are four things that could play heck with our future," the chairman responded:[297]

> First is double- digit inflation, which is hard to keep up with - and it never allows you to get prices

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47-48.)

[295] "Albertson's Chairman-Elect Faces New Market Goals."

[296] "Albertson's Chairman-Elect," pp. 1, 53.

[297] Elliot Zwiebach, "Albertson's to Step Up New-Store Growth Plan," Supermarket News 40(June 4, 1990), p. 1.

> in line quickly enough.
>
> Second is complacency, something we constantly work to avoid. For example, our first quarter earnings [up 15.4%] were very acceptable, and we will enjoy them for the weekend, then fight like heck to make whatever corrections are needed to make the second quarter better.
>
> Third is management succession. Since 1977, we've made sure each management position has at least two people backing it up.
>
> And fourth is real estate. All companies that have failed did so because of real-estate mistakes. While a mistake in operations can be corrected in six weeks, a real-estate mistake takes 25 years to correct.[298]

The big gains at the beginning of the decade attracted favorable attention to Joe Albertson's supermarket empire. The Wall Street Journal wrote in March 1990 that "two grocery chains reported higher sales for the year ended in February, and one of these was Boise's Albertson's Inc." During the fiscal year, sales went up 10 percent to $7.42 billion from $6.77 billion the previous year. The net figure was $196.6 million, which meant $2.93 a share, a gain of 21 percent. The rapid growth continued with Albertson's reporting a 16 percent gain in the second quarter and a 21 percent jump in profits in the third quarter. Same-stores sales went up more than four percent, and corporate headquarters attributed much of the success to an improved gross margin coming form increased operating efficiencies from the new distribution centers.[299] These boosts in sales and revenue led the company to announce in June that the board had

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[298] Zwiebach, "Albertson's to Step Up New-Store Growth Plan," p. 54.

[299] "Albertson's New Climbs 16%," Wall Street Journal (August 28, 1990. "Grocery Store Chain Posts 21% Rise in 3rd Quarter Net," Wall Street Journal, November 27, 1990.

approved a 2-for-1 stock split, a hand-some reward for investors.[300] "In a business environment that has been tough indeed, Albertson's has been vigorously expanding, thanks to one of the strongest balance sheets in food retailing," wrote an analyst wrote in Barron's. "And it has been posting earnings gains, to boot." [301]

While profits increased, some factors in the changing nature of the supermarket industry led analysts to voice caution. In late 1990, for example, Tim Ferguson of The Wall Street Journal wrote that serious competition to Albertson's from new, non-union, warehouse grocery stores was mounting. But Albertson's was ready to meet the challenge. "At the headquarters of Albertson's Inc., one of the nation's three most profitable supermarket chains, vice chairman and chief financial officer Gary Michael is confident," Ferguson wrote. "With 524 stores located in middle-class markets throughout the West and across the Sunbelt to Texas and Florida, his company is well placed to keep growing in the 1990s." One key, as Michael pointed out, was the company's willingness to "close stores that are fading." Albertson's corporate interest was not in overall market share but rather per store revenue marks, and this had long been the case.[302]

The strategy worked. During the early 1990s, the company's gain in earnings resulted largely from its revamping and remodeling of stores. In 1992, the company announced its plan to spend a whopping $2.7 billion on expansion and capital improvements, an investment in its own future. While the bulk of the funds were

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[300] "American Stores Co., Albertson's Inc. Report Higher Fiscal '90 Sales," Wall Street Journal (March 6, 1990). "Albertson's Inc.,' Wall Street Journal (May 29, 1990).

[301] Harlan S. Bryne, "Albertson's. Food and Drug Dealer Boasts Top Earnings Growth, High Rate of Return," Barron's (April 13, 1992), p. 55.

[302] Tim W. Ferguson, "Will Grocery Wages Send Shopper to the Warehouse?," Wall Street Journal (September 11, 1990).

earmarked for increasing the number of stores by 50 percent over the next five years, $351 million was set aside to remodel existing stores and another $384 million to upgrade equipment and expand the distribution system and update equipment. The funds would, Albertson's announced, come from internally generated sources and long term financing that the company expected to pay within the five year goal.[303] There was no significant increase in corporate debt.

Nevertheless, an analyst at Paine Webber expressed concern that Albertson's growth was becoming "increasingly dependent on acquisitions and entering new markets" and that might seriously affect the bottom line. Albertson's had some rough times during the mid-1990s, as did other supermarket chains. For example, its entry into the Austin, Texas (1989), Phoenix (1990), and Wichita, Kansas (1991), areas resulted in only "subpar profits in those markets." The additional purchase in April 1992 of 74 stores from American Stores Co., all money losers, for $455 million, gave Albertson's additional stores in Texas, Florida and Oklahoma. They were converted to the formula of everyday low pricing, which an analyst predicted would "help turn them around," but only slowly.[304]

The big competition came from discounters, such as Food Lion and K-Mart; membership clubs, like Wal-Mart's Sam's Club; and Costco's, and B.J.'s over-sized outlets that sold bulk items in a no-frills setting at sharply reduced prices. Customers came from miles around to pick up everything from groceries, fresh baked goods to electronics and furniture, all at cut-rate prices.[305] The threat was felt by supermarkets across the nation as their revenues dropped. Albertson's Inc. responded with everyday low pricing, or EDLP, a

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303 "Albertson's To Spend $2.7 Billion on Expansion," New York Times (May 23, 1992).

304 "Slowing Growth at Albertson's?", Forbes (August 17, 1992).

305 See "The Supermarket as Selling Machine," Consumer Reports (September 1993), pp. 560, 564.

campaign adopted for most of its markets. The corporation introduced a similar program into several southern California stores around Bakersfield in an effort to improve its share of this potentially lucrative market. Here, Albertson's called its low-price plan "rock bottom prices," and in exchange, it gave up offering double coupons. In southern California, Albertson's held about five percent of the retail grocery market and it operated four stores in generally blue collar neighborhoods where low price counted highly. Albertson's used the Bakersfield area as a test case, largely because this market is isolated from other southern California markets. The EDLP slogan was not used there because a competitor had already adopted it.[306] Analysts viewed the move to EDLP as the beginning of a price war in the lucrative market, one which would squeeze the smaller chains and the independents because Albertson's Inc. held only five percent of the market. Local observers saw the move as a response to the feeling among consumers in that area that Albertson's prices were higher than other grocery stores. Still, the company hoped that the ad campaign of "rock bottom prices" would invigorate its otherwise slow business in southern California.[307]

Also prompting concern on Wall Street was an agreement reached by Albertson's and other chains in the fall of 1990 with the United Food and Commercial Workers (UFCW) that boosted the pay of skilled clerks and butchers to between $12 to $15 an hour, and which included "rather generous medical plans and vesting of benefits to part-timers working as little as 16 hours a week." That was in line with the company's philosophy, but when competition began using non-union workers and paid lower salaries, the playing field changed. That happened in California when Wal-Mart entered

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[306] Elliot Zwiebach, "Albertson's Shifts Into Low-Price Plan," Supermarket News 41(June 24, 1991), pp. 4, 6.

[307] Stuart Silverstein, "Albertson's Will Switch to 'Everyday Low Prices'," Los Angeles Times (July 17, 1991).

the market and other food outlets followed. At the time, analysts differed, however, on the impact, and one maintained that "convenient location, local identity and manageable store size appeal more to shoppers than slashed prices."[308]

Albertson's Inc. was also helped by the fact that its stores on the west coast were non-union, and the chain had stores in many low-cost areas. Still, the costs of Albertson's 55,000 employees ran to 70 percent of the company's operating expenses, and union settlements on wages gain in importance. "We have to get productivity increases out of those wage increases...," announced vice-chairman Michael. "We have to have programs in the meat departments where you cut more, where you bring in the beef a little differently and you trim it differently. Consumers are not going to let you pass it along."[309]

What helps Albertson's in these situations is what has made it so profitable all along--the entire company works hard to meet the needs of the consumer. "When it comes to quality and assortment, they can't compete with us. They're not going to be able to sell fresh produce necessarily cheaper than we are. It's not like selling toilet paper," Michael told Forbes. "You can't buy ahead, if lettuce freezes in Salinas, their lettuce freezes just like ours does."[310] In order to make the shopping experience more pleasurable for the customer, Albertson's kept its stores in top shape, long a corporate focus with much of the budget going to the upgrading of existing facilities. During 1991, for example, the company introduced new interior decor and floor design in a number of stores, and that included a new color scheme, a blend of burgundy, gray and white. As the 1991 Annual Report announced, "all aspects of the interior design, from signage to lighting, focus customer attention on our products rather than on the

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[308] "Slowing Growth at Albertson's?"

[309] Ibid.

[310] Ibid.

store."[311]

Albertson's Inc. launched a number of programs designed to maintain employee commitment and sharpen their skills for serving the customer. In 1992, for example, a graduate course for district sales managers to improve management skills and keep them current on trends was added to existing management training. Another program, called Service First, acknowledged and recognized exceptional employees who consistently provided outstanding service to customers. In addition, the Albertson's Today Video News Magazine kept employees informed and up-to-date on a variety of issues, from merchandising and customer service to training. Also in 1992, the company established the position of Equal Employment Opportunity Specialist, which was responsible for coordinating Equal Employment Opportunity programs, especially those to encourage women and minority management candidates. "We regard every one of Albertson's employees as an integral and important part of our team and recognize that each one of them contributes individually to the success of our Company," the 1992 Annual Report stated. "We also recognize and applaud the fact that our employees are an extremely diverse group in a myriad of ways, including gender, race, national origin, age, experience, career desires, knowledge, skills and abilities. But for all its individuality and diversity, the group's focus as a team remains singular: To provide nothing less than superior service and value to every Albertson's customer."[312]

Along with its valued employees, Albertson's Inc. recognized that a major reason customers shop at its stores was the quality of the meat and produce: the customer expects the highest grade at the best prices, and "to most people, that means freshness and variety at competitive prices." In 1991, the company centralized its procurement for some meat and produce items, and that meant

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[311] Albertson's Inc., "1991 Annual Report," p. 3.

[312] "Slowing Growth at Albertson's?", pp. 4-5.

standardizing quality and cost throughout its empire. In practice, it worked like this: every week, the retail divisions coordinate their orders with the Corporate Procurement Department. Then, this office's staff works and negotiates with suppliers who meet the set standards. The result was consistently high quality items at the best prices. In 1992, more products were added and the program expanded.[313]

A couple of other factors demonstrated Albertson's commitment to quality. The company's private labels--Janet Lee, Good Day, Masters Treat, and Albertson's--were diverse and offered high quality at good prices. They also, as the Annual Report pointed out, "create customer loyalty because they are available only in our stores." The private label program was strengthened in 1992 when top management decided to market these items more aggressively. At Albertson's, the company also strived to be alert to differing lifestyles and budgets. Meat and produce departments posted signs with the nutritional value of selected items. Freshness was identified by the "Freshness Code Dating." And the "Super Lean Trim" and "Total Trim" programs kept fat to a minimum for those who watch their diets. Values among different brands are pointed out by the "Tru Valu Tags," and the "Plus Paxx" offered values when purchased in bulk.[314]

All of this was offered in one-stop shopping, in a single store where the customer can find a full range of products offered in a comfortable and attractive setting, a 1990s version of the first Albertson's Food Center. All of the stores in the Albertson's chain were carefully designed and most had been recently remodeled, in both size and product mix. The company viewed the ideal store at between 35,000 to 60,000 square feet, enough space to offer one-

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[313] Ibid., p. 7.

[314] Ibid., p. 7. Stuart Silberstein, "Albertson's Will Switch to 'Everyday Low Prices'," Los Angeles Times (July 17, 1991).

stop shopping, and a generous variety of basic items, combined with quality service departments. The pride and recognition of this winning formula was clear in 1992 Annual Report:

> Our stores are comfortable—with eye-soothing colors, appealing displays, clean, wide-open aisles and easy-to-read directories. Our stores are convenient—with easy-to-reach, quick-stop departments and express checkouts. Our stores carry quality products—in wide assortments and the freshest meat and produce available. Our stores put service first—with friendly, responsive, knowledgeable employees who go out of their way to make customers feel special. And our stores offer low prices—every day. Each of these components is all-important in creating a store that customers can call their own.[315]

The advertising message that came from Albertson's projected reassurance to the consumers, showing that their stores offered a total package, the best quality, the largest selection, and the best price, regardless of where their Albertson's were located. The message, "It's Your Store," has been a key element in corporate advertising program for a number of years.

Making it "your store" has meant that Albertson's developed flexible store formats that best fit smaller or emerging markets. In 1992, the corporation operated four different formats that covered a range of consumer needs. The combination stores, now numbering 234 in the Albertson's chain, carried all the items that one would find in a full-line super drugstore and supermarket. These one-stop markets ranged in size from 48,000 to 67,000 square feet, and the 272 superstores were basically small versions of the combination stores. The conventional stores were full-line supermarkets with less than 35,000 square feet, and they offered fresh meats and produce, groceries, dairy products. This type of store was, however, being phased out by the early 1990s, and many of the 106 conventional stores were slated to be expanded or replaced by superstores.

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[315] Ibid., p. 10.

Finally, the 44 warehouse stores offered big savings to those customers who buy in bulk.[316]

Such measures were justified in the highly competitive food industry. The decades of sound management led Albertson's nicely into the 1990s, and other analysts looked to its stock as a sound investment. "**Nothing** drives up the price of a stock better than rising profits," Changing Times wrote in early 1991. And it added that those companies whose profits continue to gain are good investments. Albertson's was again a company identified as a good investment with its 16 percent gain of profits in the 1980s. These "should continue at about that rate in the 1990s, according to analysts."[317]

The confidence of the financial and investment communities was reflected in corporate planning and, of course, the annual reports of Albertson's Inc., which continued to note with due pride the gains being made in the 1990s. Strategic planning in 1990 was indeed ambitious, calling for an 11 percent gain in sales in 1991. The company announced that it would achieve this ambitious goal through a variety of measures. In June 1990, top management told shareholders that the company planned to accelerate its growth over the next five years. New stores were to be opened at the rate of 50 a year, an ambitious measure financed by cash built up and held by the company. Albertson's planned to remodel 175 of its stores at a cost of $254 million,[318] and it aimed to strengthen identical-store sales and decrease operating expenses, a constant focus of attention.

Albertson's Inc. launched a program to computerize all 539 stores, a task that was expected to be completed over the next five years. Along with these innovations, Albertson's also announced that

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[316] Ibid., p. 8.

[317] Emphasis in the original. "Investing: Where Profits Go Up & Up," Changing Times (January 1991).

[318] "Elliot Zwiebach, "Albertson's to Step Up New-Store Growth Plan," Supermarket News 40(June 4, 1990), pp. 1, 54.

it expected to add 37 stores in 1992, all in the 40,000-60,000 square foot range. Other plans, including the increase in perishables sales and a stronger non food presentation, were intended to boost sales, revenue and profits.[319] Another measure taken to cut costs and improve operations came in 1992 when the company switched its meat procurement operations to a centralized buying format. The company then coordinated the meat purchasing for all eight of the distribution centers which supplied its 562 stores in 17 southern and western states. As company headquarters reported, the move was part of its long term strategy "to move into self-distribution on all items possible and to lower overall costs and pass those savings through to the consumer."[320]

As the 1990 Annual Report indicated, sales rose steadily over the previous five years, from \$5.38 billion in 1986 to \$8.22 billion in 1990, impressive gains that also meant a rise in net earnings of more than 100 percent, from \$100.2 million to \$233.8 million.[321] During the next fiscal year, 1991, sales rose by 5.6 percent, to \$8.6 billion, and net earning gained 10 percent, in spite of a nation-wide recession that slowed growth in virtually all sectors of the economy.[322]

Some nationwide trends invariably affected Albertson's,

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319 Elliot Zwiebach, "Albertson's Sees 11% Rise In Sales, 19% in Earnings," Supermarket News 41(June 3, 1991), pp. 1, 46.

320 Richard Turcsik, "Albertson's Centralizes Meat Buying," Supermarket News 42(April 13, 1992), p. 61.

321 Albertson's Inc., "1990 Annual Report," p. 1; Richard Turcsik, "Earnings, Sales Rise at Albertson's," Supermarket News 40(December 3, 1990), p. 49; Elliot Zwiebach, "Albertson's Sees 11% Rise In Sales, 10% in Earnings," Supermarket News 41(June 3, 1991), pp. 1, 46; Richard Turcsik, "Albertson's Net Up 19%; Sales 10.7%," Supermarket News 41(March 11, 1991), pp. 4, 36.

322 Albertson's Inc., "1991 Annual Report," p. 1.

particularly the crisis in the savings and loan industry. Much of the corporation's gain in profits was tied to the opening of new stores, but in late 1990, the Savings & Loan crisis hit it hard. During the first six months of the year, Albertson's opened 14 new stores, closed 14 smaller and under-performing stores, and anticipated opening 30-35 stores that year, less than the 40 it had projected. Responsible for these figures were problems in the southwest where developers had difficulties finding long-term financing as a consequence of the problems in the savings and loan industry. "We still think the best locations for our stores are in centers with multiple tenants, and while we have the funds to build our stores, we do not want to go ahead and put in the infrastructure for the whole shopping center; we would rather wait until the developer can obtain financing," the company vice-president stated.[323]

A year later, with the economic situation in the United States still unsettled, Albertson's launched a new campaign called "W.A.R.," "war against recession." The company announced that it planned to offer weekly recession specials, products sold at or even below cost. And that was in addition to the usual ad specials and bonus buys. "The recession is on everyone's mind, and Albertson's is proud to be the first store to propose concrete solutions to the country's economic crisis," the company's vice-president, marketing, told the media. The campaign was viewed as "a tough stand against the real problem of the recession."[324] Advertisements for the campaign, featuring "war" correspondents, ran from mid-February until mid-March, when the company, responding to complaints that the ads had glorified war,

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[323] Richard Turcsik, "S&L Crisis Impacts Albertson's," Supermarket News 40(September 3, 1990), pp. 1, 48.

[324] Elliot Zwiebach, "Albertson's Declares W.A.R., To Offer Recession Specials," Supermarket News 42(March 2, 1992), p. 54.

pulled them.[325]

During 1992, Albertson's Inc. went on another shopping spree of its own, scooping up 74 stores from the Salt Lake City based American Stores Co. Albertson's purchased these retail outlets, operating under the name Skaggs-Alpha Beta for about $455 million. First announced in early February, the agreement called for Albertson's to buy stores in Texas, Oklahoma, Arkansas and Florida. The purchase helped especially in the Dallas-Fort Worth market where Albertson's market share more than tripled to over 19 percent.[326]

Albertson's Inc. continued to look for small outlets to purchase. Only several months after the acquisition of American Stores, it made an offer to buy Super Food Services' Florida operations. Albertson's was interested in securing the company's food-distribution warehouse, delivery equipment and other Florida assets, but the decision was contingent upon acceptance of the purchase by a union vote. When the results of vote came against the sale, Albertson's pulled out and Super Food Services filed a law suit.[327]

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325 "Albertson's Cancels 'War' Ads," Supermarket News 42(March 30, 1992), p. 49.

326 Elliot Zwiebach, "Albertson's to Buy 74 Jewel-Oscos," Supermarket News 42(February 3, 1992), pp. 1, 50. Mark Tosh, "Albertson's May Shut Some Jewel-Oscos," Supermarket News 42(February 17, 1992), p. . Elliot, Zwiebach, "Albertson's Completes Jewel-Osco Buy," Supermarket News 42(April 27, 1992), P. 15. "American Stores Co.: Definitive Pact Reached on Sales to Albertson's," Wall Street Journal (February 18, 1992). "Albertson's to Buy 74 Jewel-Oscos," Drug Store News (February 17, 1992). "American Stores Co.," Wall Street Journal (January 29, 1992).

327 "Albertson's Ends Bid To Buy Super Food's Operations in Florida," Wall Street Journal (March 23, 1992). "Super Food Files Suit Over Albertson's Step To Withdraw Offer," Wall Street Journal

In fiscal year 1992, sales for the sixth largest retail food-drug chain rose by more than 17 percent, from $8.7 billion to $10.1 billion, marking the company's 23rd consecutive year of increased sales and earnings. The gain was reflected in a 14% increase in dividends paid to shareholders. The overall figures are indeed impressive. So, too, were the advances made by the company's 656 stores, scattered among 19 western, mid-western, and southern states. In fiscal 1992, average weekly sales per store rose from $307,000 to $312,000. The average store size also rose from 43,600 square feet to 45,900.[328]

The gains continued and by fiscal year 1993 Albertson's Inc. rose to the number four position among retail food-drug chains in the country, with 676 stores in 19 western, mid-western, and southern states. The number of employees totaled 75,000. By early 1994, sales went from $10.1 billion to $11.3 billion, a gain of almost 11 percent, and net earnings shot up by more than 26 percent. Top management attributed the consistent gains to the corporation's commitment to the principles introduced by Joe Albertson in his first Food Center: "to be the best supermarket in your neighborhood," by giving the "customers excellent service and quality products at the right price." In fact, much of the gain came from same store sale increases, the result of an emphasis on pricing, promotion and customer service.[329]

The amazing success of Joe Albertson' supermarket empire was confirmed by the 23 consecutive years of increased sales and earnings reached in 1992. Such an achievement was also testament to the sage management that has continued to guide the company, which, incidentally, continues to be gleaned from the ranks as the

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(April 2, 1992). Mark Tosh, "Albertson's-Super Food Deal Off?" Wall Street Journal (March 23, 1992), pp. 4, 50.

[328] "1992 Annual Report, Albertson's," pp. 1-3.

[329] Albertson's Inc., "1993 Annual Report."

leading executives have served virtually their entire careers at Albertson's Inc.[330]

Each year, the company dedicated large amounts of cash to expansion. In 1992 alone, it invested $643 million in capital expenditures "to expand and improve our store base, distribution centers and computer systems." Furthermore, 107 stores were opened, and that included 74 obtained in the acquisition of Jewel Osco, located in Texas, Oklahoma, Florida, and Arkansas.[331] The program of remodeling and expanding stores continued, with 48 remodels and 12 expansions in 1992. The company's determination to close unprofitable stores continued, and in 1992, 13 stores were closed, and 10 were replaced with larger stores. This fact explains the gain in the average size of the stores.[332]

To strengthen its position within the industry and to sustain the momentum of its expansion program, Albertson's Inc. announced in March 1991 that it planned to open 230 new stores by 1994 at a capital expense of $1.4 billion. The company's goal was to add between seven to nine percent in net retail square footage to its asset base each year. Targeted for the most intense expansion were Arizona, California, and Texas.[333] By the end of fiscal year 1991, Albertson's operated 562 stores in 17 western and southern states, and plans called for these states called for more outlets within their borders. In December 1991, the company announced a five year

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[330] See the list and brief biographical sketches in, "Albertson's Inc.," Dun & Bradstreet, Reference Book of Corporate Managements, 1993, pp. 47-48.

[331] Albertson's Inc., "1991 Annual Report," pp. 2-3.

[332] "1992 Annual Report," p. 2. Byrne, "Albertson's Food and Drug Retailer," p. 55.

[333] "Albertson's Massive Deployment," Discount Merchandiser 31(March 1991), pp.26-27. Byrne, "Albertson's Food and Drug Retailer," p. 55.

expansion plan with $2.4 billion in spending for the construction of an additional 250 stores, the remodeling of 175 others, and the introduction of further cost-cutting computerization. Capital spending in fiscal year 1992 was to more than double and reach $650 million, with much of that coming from the acquisition of 75 Jewel Osco combination food and drug stores in Texas, Oklahoma, Florida and Arkansas. In addition to purchasing existing stores, Albertson's planned in fiscal 1992 to build 40-45 stores and remodel another 35-40. "As things now stack up, expansion, along with annual growth, should nearly double sales of the Boise, Idaho-based company to around $15 billion in five years," wrote one observer.[334] The future looked very promising.

Other factors helped make Albertson's Inc. one of the nation's best investments and most successful grocery store chains. From its start back in 1939, Joe Albertson and his company were committed to providing shoppers with the essentials, "quality products, competitive prices, one-stop shopping convenience and personalized service." And as the company stated in the 1992 annual report, "We believe that service, perhaps more than any other factor, distinguishes one supermarket from another." The key ingredient was the employee. "Thus, continuing employee education is one of the most important investments we make--beginning with basic orientation and continuing through on-the-job training, video-based training and traditional classroom programs."[335]

During the early 1990s, Albertson's Inc. took other measures to maintain the high quality of its services and products. It upgraded its warehouse network, facilitating further expansion which, the company projected in 1993, would pass the 800 store mark by 1996. These steps were part of a five year $2.7 billion capital expenditures program. The establishment of in-store pharmacies was a central

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[334] Byrne, "Albertson's Food and Drug Retailer," p. 55.

[335] "1992 Annual Report," p. 4.

element of the expansion plan.[336]

Measures taken at corporate headquarters in Boise also had an impact. In July 1991, Albertson's announced that it would halt the practices of double and triple coupons and loss-leader discounts on certain items in the southern California market where it was the fifth-largest grocery retailer. Instead, the company launched a plan to lower prices on all items. As one journalist noted, if the Albertson's experiment proved successful, it had national significance and might "signal an end to the discount wars that have already spread to chains in other areas."[337]

Throughout its history, Albertson's has placed much emphasis on efficient distribution, of getting the right product to the store at the lowest cost. During the early 1990s, Albertson's operated ten distribution centers, located strategically in the 19 state area. In 1992, these supplied 68 percent of all products purchased by Albertson's retail stores, and by 1994, that figure rose to 80 percent. Since the late 1980s, the company invested $281 million to develop and expand the distribution system. That has included a 400,000 square feet addition to the Fort Worth, Texas, Distribution Center, and new ones in Ponca City, Oklahoma, and Tolleson, Arizona.[338]

Finally, to keep tabs on these elements of the retail grocery business, Albertson's Inc. adopted automated systems that collected, integrated, and analyzed data for every aspect of the company's operations. The Management Information Systems was designed to get the right information to the right person quickly, and it coordinated

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[336] Mike Reynolds, "Pharmacy a Key Part of Albertson's Expansion Plans," Drug Topics 137(January 11, 1993), p. 106.

[337] Dan Koeppel, "Albertson's Kills Coupons, Cut Prices," AdWeek's Marketing Week 32(July 22, 1991), p. 22.

[338] "1992 Annual Report," p. 12. "Albertson's Inc.," Wall Street Journal (May 29, 1992).

the automated systems. Computerizing time and attendance now meant that time and rate of pay for each employee was calculated and electronically transmitted to the Corporate Office where the paychecks were generated. Other features, such as the Direct Store Delivery, installed in 1992 in 185 stores, automated the receiving process for items delivered from vendors. It worked like this: a hand held computer scanned the items, and the data then went to the store computer which calculated payment based on previous agreements. Next, a message of delivery and payment was sent to the Corporate Office so that the vender received payment. Other uses of computer technology were developed as the company strived constantly to cut expenses and improve efficiency.[339]

The furious pace of growth and emphasis on corporate profits over the decades and the demands this placed on some Albertson's employees took a toll. In May 1992, a group of employees filed a class action lawsuit alleging discrimination against Hispanic and female employees at the company's 144 stores in California. The lawsuit maintained that an investigation by the U.S. Equal Employment Opportunity Commission revealed that fewer than three percent of Albertson's store directors in northern California were women. "This employer stands out in an industry already known for discrimination against women and minorities," an attorney representing the women told the press.[340] The plaintiffs wanted changes in the company's promotion practices and back pay for women hired since April 1987. In November 1993, the company announced that it was settling the case out of court. Albertson's Inc. agreed to pay $29.5 million for lost wages and emotional distress.[341]

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[339] "1992 Annual Report," p. 15.

[340] "Albertson's Is Accused of Ethnic and Sex Bias in Suit by Employees," Wall Street Journal (May 28, 1992).

[341] Margaret A. Jacobs, "Legal Beat: Albertson's Settles Bias Suit," Wall Street Journal (November 23,1993).

The settlement also provided cash for a fund to strengthen the job training program and the monitoring of the company's promotions practices. In addition, 20,000 current and former employees received damages payments ranging from between "several hundred dollars and several thousand dollars." As part of the settlement agreement, $500,000 was to go to the development of job-training programs to prepare women and minorities for positions of higher responsibility.[342] While Albertson's admitted no wrong-doing, a spokesman maintained that the settlement "will save us millions in legal fees." Albertson's issued a statement saying that it denies "any violation of civil rights laws" and that it chose to "settle the case at an early stage in order to save substantial time and litigation costs."[343] Confidence in the future had long been a hallmark at Albertson's, and with good reason. Already, in 1992, it could boast of "one of the industry's best records in financial performance--earnings growth plus above average rates of return."[344] For 22 straight years, the company had increased its earnings and sales, and in fiscal 1991 net income increased 10.3 percent to $258 million. That amounted to $1.94 a share, and for the next year, one analyst predicted earnings of $2.15 a share with a further gain of $2.60 a share in 1993. Accompanying these record earnings was the decision of the directors to raise the quarterly payments to the shareholders from 14 cents a share to 16 cents, an increase for the 20th straight year.[345]

The company continued to press forward with its ambitious goals. The Five-Year Plan adopted in 1992 was designed to lead the corporation to the following: a $1.55 billion investment to open 259

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[342] Mark Tosh, "Albertson's Settles Employment Lawsuit," Supermarket News 43(November 29, 1993), pp. 1, 46.

[343] George White, "Albertson's to Settle Bias Suit by Paying $29.5 Million," Los Angeles Times (November 23, 1993).

[344] Byrne, "Albertson's Food and Drug Retailer," p. 55.

[345] Ibid.

new stores; $350 million to remodel 215 stores and 35 expansions; $50 million to replace and upgrade existing equipment; $280 million to expand and improve the distribution system; and $80 million for operational and administrative computer systems. The $2.3 billion expansion would again be financed by internally generated funds, and the acquisition debt would be paid off by 1997. Along with the aggressive facility plans, Albertson's decided to build its own distribution facility in Florida, a measure that became imperative after a deal to purchase the state's facilities of Super Food Services fell through. Albertson's Inc. insisted that it opted for its own facility in order to remain competitive.[346]

Despite the vigorous growth, 1992 was a tough year for Albertson's bottom line. Earnings fell to $26 million, down from $37 million just a year earlier. The reasons, the company pointed out, were a number of one-time factors, including the expense of acquiring 74 Jewel-Osco stores ($26.8 million), the cost of changing suppliers in Florida ($1.6 million), retroactive imposition of taxes in Texas ($2.5 million), the early adoption of new financial standards relating to employee accounting related to pensions ($4.1 million), and the early adoption of new financial standards relating to income taxes ($2.8 million). Still, during this period, some figures were encouraging. Without these one-time expenses, the company noted proudly, net earnings would have gone up by almost nine percent, and same store sales would have increased by 3.4 percent. An analyst for Morgan Stanley noted, "we continue to view Albertson's as a strong player in the supermarket industry, and we expect it will benefit longer-term from the excellent strategic acquisition of the Jewel-Osco units."[347]

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[346] "1992 Annual Report," p. 3. "Albertson's Goal: $15B In 5 Years," Supermarket News 42(June 1, 1992). "Ursula Thomas, "Albertson's Sees Florida Units Self-Distributed Within Year," Supermarket News 43(June 7, 1993), pp. 6, 78.

[347] "Albertson's Goal: $15B In 5 Years," pp. 1, 49.

During 1993, Albertson's undertook several moves that were expected to further boost its sales. First, though, the corporation mourned the death of its founder, Joe Albertson, who died on January 20th. For some time already, he had no longer been active in day-to-day operations, but Joe Albertson remained a director and an active board member.[348] Following his death, the company decided to purchase back 11 million of his approximate 22 million shares of common stock. If it had not chosen to do so, the estate would have been obligated to sell the shares in a registered public offering, with the expense being borne by the company.[349]

With the growing competition from warehouse type stores, such as Wal-Mart, Albertson's Inc. responded in early 1993 by converting at least seven stores in the lucrative Dallas-Fort Worth area to its own version, called Max Warehouse. Often, the company transformed one of its Jewel-Osco combination stores, recently purchased, into the new and larger format. Later in the year, the company announced plans to convert its Grocery Warehouse stores in southern California and Colorado to the Max format. By August 1993, Albertson's operated 44 warehouse stores whose sizes ranged from 24,000 to 73,000 square feet.[350] It strived to hold-on to its share of the lucrative grocery market and to continue boosting revenue and profits.

Eager to keep its retail turnover high, Albertson's constantly tried new promotions. For example, in the summer of 1993, the company announced that it was planning a series of glassware

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[348] "Obituary: Joseph Albertson," Supermarket News 43(January 25, 1993), p. 4.

[349] "Filing to Give Albertson's Flexibility to Buy Stock," Supermarket News 43(February 15, 1993), p. 9.

[350] "7 Albertson's Become Max Units," Supermarket News 43(March 1, 1993), p 6. "Albertson's Said to Plan Max Conversions," Supermarket News 43(August 30, 1993), pp. 6, 50.

promotions which built upon a similar, and quite successful, campaign of the previous summer. The company sold glasses with highly recognizable logos, such as Budweiser beer and Pepsi, products that generated more than $200,000 in sales. Now, the company planned to offer other glassware items until Christmas.[351] During the same period, Albertson's used a cross-merchandised feature and display to move a full range of Italian food products. The store displays, prominently featuring pasta and other products, proved highly successful, a favorite among customers.[352]

Writing in July 1993, Albertson's observer Elliot Zwiebach noted that the company might not have a lot of flash, but "it continues to creep up on more aggressive retail operators slowly and deliberately." Several factors contributed to the prediction that within a couple of years it would become the nation's fourth largest volume retailer with its sights set on challenging Safeway for the number three spot. The reasons included the acquisition of Jewel Osco; the opening of a one million square foot distribution center in Florida, which would jump start the slow Florida market; the development of a smaller store prototype, which would enable the company to gain footholds in smaller markets; and more development of its warehouse store format. Analysts were lavish with their praise of the company's unassuming but highly successful style. In part, Albertson's success also came from its willingness not to be the top player in each market or even to compete for that distinction. Albertson's operated 651 stores in 19 states, and over the next five years, anticipated opening 250 more.[353]

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[351] Joel Elson, "Albertson's Planning Series Of Glassware Promotions," Supermarket News 43(August 16, 1993), p. 32.

[352] Richard Turcsik, "Albertson's Ad Features Italian Foods," Supermarket News 43(August 16, 1993), p. 25.

[353] Elliot Zwiebach, "Albertson's Stealthy Growth," Supermarket News 43(July 12,1993), pp. 1, 10-11.

In fact, throughout 1993, Albertson's gains were impressive. Announcing the results for fiscal year 1992, the company stated that net income rose 4.4 percent to $260.2 million. Lower operating expenses and strong same-store sales helped boost the numbers as did a reduction in costs.[354] The advances continued, and the company's sales increased in the first and second quarters of the year. The nation's sixth largest food and drug retailer, Albertson's Inc. operated 654 stores. Its second quarter earnings rose a full 15 percent.[355] Profits shot up again in 1994 when Albertson's reported 20 percent gains in March and another 50 percent rise for the quarter ending in November.[356]

The gains continued for the Boise based supermarket empire. Since 1988, Albertson's stock had risen six-fold, and sales, earnings per share, and net profit outpaced the industry wide average. Yet, in the fall of 1996, it faced an unprecedented situation when almost overnight its stock fell by 15 percent. The plummet

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[354] "Albertson's Posts Record Sales, Net in Quarter, Year," Supermarket News 43 March 15, 1993), p. 9. "Comp Time at Albertson's," Supermarket News 43(June 28 1993), p. 46.

[355] "Mark Tosh, "Albertson's Sales Gain, Net Jumps in Quarter," Supermarket News 43(May 31, 1993), p. 8. Elliot Zwiebach, "Albertson's Has Record 2nd Quarter," Supermarket News 43(August 30, 1993), p. 1, 8. See also, Mark Tosh, "A Difficult First Half," Supermarket News 43(September 27, 1993), pp. 1, 52. "Albertson's Inc.: Same-Store Sales Pushed Net up 15% in Fiscal 2nd Quarter," Wall Street Journal (August 24, 1993). "Albertson's Inc.: Food Retailer Posts 50% Rise in Profit for Third Quarter," Wall Street Journal (November 29, 1994).

[356] "Albertson's Inc.: Supermarket Concern's Net Rose 20% in Fourth Quarter," Wall Street Journal March 8, 1994. "Albertson's Inc.: Food Retailer Posts 50% Rise In Profit for Third Quarter," Wall Street Journal (November 29, 1994). "Albertson's Inc.: Outlook for 3rd, 4th Periods Sends Shares Tumbling 15%," Wall Street Journal (October 15, 1996).

came after the company announced that its earnings for the third and fourth quarters would fall below Wall Street's expectations.[357] Responsible for the unfavorable predictions were, Albertson's headquarters in Boise announced, an unexpected slowdown in growth of sales and the company's ongoing heavy expenses in expansion. The dip was, as The Los Angeles Times reported, a shock for Wall Street because Albertson's had "long been a steady, profitable performer in the otherwise cutthroat world of big-league grocery chains." Some analysts expressed concerned that the slowing of the industry leader might signal farther reaching problems, but most agreed this was a one-time situation. Albertson's "made no apologies," and it continued to spend on expansion.[358]

The sharp drop in the value of Albertson's stock was followed less than a year later by more labor and legal problems for the Boise based corporation. While it presented itself as an efficient, benevolent, and highly profitable corporation, Albertson's kept its costs down, the company's main union asserted in March 1997, by directing its managers to pressure workers to put in extra hours without pay. The suit also alleged that the company used a manager's bonus to reduce compensation. The nationwide class action suit was filed in federal court in Boise by the United Food and Commercial Workers International Union (UFCW). The complaint identified statements from current and former employees "attesting to the pressures created by the Bonus System to work off the clock and not to pursue worker's compensations claims."[359]

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[357] "Albertson's Stock Falls 15% on Poor Earnings News," New York Times (October 15, 1996).

[358] "James F. Peltz, "Albertson's Stock Drops 15% as Its Earnings Flatten," Los Angeles Times (October 15, 1996).

[359] Complaint quoted in "Nationwide Class Action Suit Targets Albertson's Pay Practices, Mistreatment of Workers," Business Wire (April 21, 1997). "Albertson's Inc. Faces A New Suit Charging

The union accused Albertson's of forcing workers to work off the clock. The struggle came out of California where the United Food and Commercial Workers Union maintained that the company's wage liability was more than $200 million. A union official told The Los Angeles Times that 3,700 Albertson's workers had signed sworn statements on workplace abuses. "We've investigated lots of companies and we never found such widespread unlawful employment practices, both in union and nonunion stores," he announced. Albertson's Inc. allegedly gave its workers more work to finish than was possible during their shift, and if the workers claimed overtime hours or refused the extra work, the company threatened their jobs, their promotions, or scheduled hours.[360] An analyst with Smith Barney was taken aback by the allegations, saying "If you had to name one thing that distinguishes Albertson's, it's customer service and employee morale."[361] Albertson's responded with countersuits, charging that the Union was overwhelming the company with grievances and information requests. Finally, in late November, 1999, an agreement in principle to eight class action law suits against Albertson's Inc. was reached. "The UFCW is pleased that Albertson's has finally agreed to do the right thing: Clean up its act, and pay employees who worked off the clock to meet arbitrary labor cost goals," the UFCW international president told the press. "Worker rights will be enhanced and protected by the consent decree

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Unfair Labor Practices," Wall Street Journal (April 21, 1997). For the legal argument and court decision, see United States Court of Appeals, Ninth Circuit, Albertson's Inc., v. United Food and Commercial Workers Union, AFL-CIO & CLC, 157F.3rd758.

[360] Stuart Silverstein, "Lawsuits Unsettle Albertson's," Los Angeles Times (March 21, 1997).

[361] Quoted in Silverstein, "Lawsuits Unsettle Albertson's." Aaron Bernstein, "This Union Suit Could Really Scratch," Business Week (March 10, 1997), p. 37.)

entered into by Albertson's."[362]

As the decade wore on, Albertson's expanded efforts to attract and maintain customers, as it strived to rebound and regain its luster. Corporate management continued to be optimistic. "This company is rock solid," Gary Michael, Chairman of the Board and CEO, told shareholders at the May 1997 annual meeting. "Last year, we posted our 27th consecutive year of increased sales and earnings. We're number one in our industry in numerous financial measures. We've put plans in place to continue growing and to perform at even higher levels."[363] Michael outlined the plan for the next five years, which included the opening of about 350 new stores, the remodel of another 250 existing stores, and more investment in distribution, new information systems and technology. "We can do all of this because our balance sheet remains strong," he told shareholders. "It allows us to support our retail operations, make acquisitions, and purchase and retire Company stock. We have the financial strength to do it all."[364]

There were some clouds on the horizon. Earnings for the first quarter of 1997 fell, the first quarterly earnings decline in 27 years. The company stock dropped 16 percent, compared to the previous year, and "some on Wall Street fret that the nation's fourth-largest food and drug chain has lost its edge," wrote a reporter for

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[362] "UFCW Says NLRB Declares Albertson's Suit Unlawful," Business Wire (July 2, 1997). "Labor Board Alleges Albertson's Violated Union Workers' Rights," Wall Street Journal (October 5, 1998). "UFCW Lauds Settlement of Union-Backed Lawsuits Against Albertson's Illegal Practices," Business Wire (November 30, 1999).

[363] "Albertson's, Inc. Reviews 1996 And Future Plans At Annual Meeting Of Stockholders," Business Wire (May 23, 1997).

[364] Ibid.

The Wall Street Journal.[365] "Some analysts say Albertson's has started to appear stale as competitors such as Kroger Co. and Safeway Inc. claim greater market share through lower prices, improved merchandising and heavy promotions." Albertson's was one of the few grocery chains not of offer frequent shopper cards, a tool found useful and profitable by its competitors in tracking sales and boosting customer loyalty. Gary Michael challenged these assumptions, arguing that such cards are "just one of those gimmicks." Albertson's chose to devote its marketing resources to advertising in newspapers, radio and television. As well, the company was launching new ventures, including its first gas station, updated pharmacy departments called "Better Care Centers," and drive-through windows at the pharmacies. Michael voiced his hope that these measures would enable Albertson's to compete with the growing competition. In spite of the slow-down, Albertson's "remains one of the most profitable supermarket companies," and "the chain also continues to have the best return on assets in the industry."[366]

By the end of 1997, Albertson's profits rebounded, with the company reporting third quarter gains of 16 percent in net income, surpassing Wall Street's estimates. Much of the gain came from improved performance in some of the newer stores, particularly those in the South and Southwest.[367] In 1998, earnings moved up during the first quarter, with sales up by six percent, reaching $3.85 billion. These gains permitted Albertson's to acquire more stores, buying Smitty's Super Markets Inc. which operated in Missouri; Seessel Holdings Inc., based in Memphis, Tennessee; and Buttrey Food & Drug Stores Co., headquartered in Great Falls, Montana. In July, it

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[365] Calmetta Y. Coleman, "Albertson's Leaves Industry Trends in the Checkout Line," Wall Street Journal (August 6, 1997).

[366] Ibid.

[367] Thomas M. Burton, "Albertson's Profit Increased Sharply In Third Quarter," Wall Street Journal (November 25, 1997).

purchased 15 stores in Tennessee and Georgia from Bruno's Inc., and in August, Albertson's Inc. agreed to purchase American Stores Co. With these acquisitions, Joe Albertson's supermarket empire grew to more than 2,470 stores in 37 states, with total sales of about $36 billion.[368]

Albertson's bid to buy American Stores, which operated the Sav-on drugstore chain and Lucky grocery stores, was a block-buster. The $11.7 billion deal created the nation's largest supermarket chain, surpassing Kroger Co. in revenue. Albertson's would now operate more than 2,470 stores in 37 states with annual sales totaling about $35 billion. The purchase was part of a wave of mergers and acquisitions in the grocery and food market industries, with Safeway and Fred Meyer also making big purchases. "By pairing up, the chains figure they can slash their redundant overhead and advertising costs and negotiate better deals with food and drug suppliers—thus enabling them to keep offering competitive prices, garner more shoppers and increase their sales," wrote a Los Angeles Times reporter. Through acquisitions, these companies were better able to compete with the giants of retail, Target and Wal-Mart, which had also opened grocery departments. Albertson's saw a $100 million savings during the first year and as much as $300 million by the third year, and this, Michael stated, "will be used to benefit our customers, giving them greater choice, better service and low prices." Some analysts were surprised by the size of Albertson's offering, but an analyst at Prudential noted, "there probably isn't a management around that studies the business as meticulously as [Albertson's executives] do, so I have a great deal of confidence" in the success

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[368] "Albertson's Inc.: Profit Edges Up in Spite Of Store-Closing Charge," Wall Street Journal (May 22, 1998). "Albertson's Buys Some Stores," Wall Street Journal (July 31, 1998). "Albertson's Inc.: Pact Reached to Buy Unit Of Bruno's for $88 Million," Wall Street Journal (January 14, 1998).

of the merger.[369]

Albertson's acquisitions boosted sales and corporate profits. During the fiscal first-quarter of 1999, gross margins jumped by 24 percent. But the promising start of the year soon shifted, in part because of Federal Trade Commission demands that it divest more stores than previously expected in the purchase of rival American Stores and in part because of charges linked to the $9.5 billion purchase. Under terms of an agreement with the FTC, Albertson's headquarters agreed to divest 145 markets, news that led to a drop in share price. Still, Albertson's insisted that "the merger is going extremely well."[370]

The higher than expected costs of the merger and other factors, including mounting competition from Wal-Mart and adverse publicity from the lawsuit filed by workers pressured to do overtime without compensation, led to a shocking drop of 40 percent in net income during the third quarter of 1999. Referring to the purchase of American Stores, chairman Michael stated that "This undertaking adversely impacted earnings and evolved in a manner that prevented

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[369] James F. Peltz, "Albertson's To Acquire Lucky in $11.7-Billion Deal," Los Angeles Times (August 4, 1998). Stuart Silverstein, "At What Price? Despite Fears, Jury Is Out on the Impact of Grocery Mergers," Los Angeles Times (August 4, 1998). See also Melinda Fulmer, "Albertson's Shelves Lucky Name Today, Replacing It With Its Own," Los Angeles Times (November 3, 1999).

[370] "Business Brief–Albertson's Inc.: Quarterly Net Jumped 24% On Rise in Gross Margins," Wall Street Journal (May 26, 1999). Jerry Guidera and Robert Berner, "Albertson's Agrees With FTC Demand To Divest More Stores Than Expected," Wall Street Journal (June 22, 1999). Melinda Fulmer, "Albertson's, American to Divest 14 Markets," Los Angeles Times (June 23, 1999). James P. Miller, "Albertson's Loss Linked to Purchase Of American Stores," Wall Street Journal (September 1, 1999). See Michael J. Mandel, "Is the U.S. Building a Debt Bomb? U.S. Corporate and Consumer Borrowing Has Hit Worrisome Levels," Business Week (November 1, 1999), p. 40.

us from anticipating the magnitude of the impact sooner." Merger related costs turned out to be much higher than expected. But acquisitions had been a key element in Michael's strategy for continuous corporate growth and on-gong profits. Until now, it had worked. These issues led one analyst to tell The Wall Street Journal: "it looks as if something went wrong on the cost side of the business that they haven't quite got a handle on." Forbes also questioned Michael's strategy of aggressive cost cutting and acquisitions. "Ruthlessly adhering to cost control for the sake of fatter margins comes at a price," even though that had long been a company mantra. Now, with heightened competition in both price and quality, Albertson's had to be extra careful. A shake up in management followed, with President Richard King leaving, and the expectation that the infusion of new managers from American might lead the company to new markets.[371]

In California, the company announced in early 1999 that it would open the first of seven new gasoline and fuel centers at supermarkets there, becoming the first supermarket chain in the state to offer this service. Albertson's announced that it would sell generic, non-brand gasoline for at least 5 to 10 cents per gallon cheaper than major brands. Albertson's had already 25 gasoline centers in other states and announced that it would open 575 nationwide over the next five years. Selling cheap gas was viewed as a means of attracting consumers, and Albertson's planned to link discounts on

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[371] Calmetta Y. Coleman, "Albertson's Profit Declined by 40% In Fiscal 3rd Period," Wall Street Journal (December 1, 1999). "Day of Steep Losses Ends Strong November for Nasdaq," New York Times (December 1, 1999). Kelly Barron, "Albertson's Gets a Makeover," Forbes (September 6, 1999), pp. 107-108. Robert Berner, "Albertson's Says King Has Resigned His Executive Posts," Wall Street Journal (June 23, 1999).

gas to food purchases.[372]

At a time when drastic changes were underway in America's supermarkets, what Consumer Reports termed a "shopper rebellion,"[373] Albertson's Inc. continued to respond to the needs and wants of consumers and to boast record earnings. The supermarket industry would continue to remain intensely competitive, with profit margins as low as one half cent for every dollar in sales. Supermarkets adopted new programs and offered an even broader range of products, from fresh vegetables to the newest electronics. As more communities witness the opening of warehouse stores, new formats are introduced. In such a changing market, only the most efficient and best managed companies will continue to survive.

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[372] Melinda Fulmer, "Albertson's to Sell Gasoline to Lure Shoppers to Its Markets," Los Angeles Times (March 31, 1999).

[373] "The Supermarket As Selling Machine," Consumer Reports (September 1993), pp. 560-564. See also, "A Survey of the Food Industry," The Economist (December 4, 1993), pp. 1-18.

CHAPTER 10

"STILL GOOD PRINCIPLES TODAY"
JOE ALBERTSON AND HIS COMPANY'S SUCCESS

Throughout its history, Albertson's Inc. had been responsive to a continuously changing market, and it has consistently made sound decisions. In the 1950s and 1960s, for example, chains recreated its prototype and simply opened more of the same kind of stores as the market expanded rapidly. In the 1970s and 1980s, distinct format stores came to dominate, with more warehouse stores and superstores being constructed. Here, too, Albertson's was one of the leaders. In the mid 1990s, new concerns have emerged, and the responsiveness of Albertson's will determine if it continues to be one of the most profitable chains. Now, value conscious shoppers look past the national advertising to store brands and good values, a move actually anticipated at Albertson's.

Albertson's Inc. began more than 60 years ago as a single grocery store in Boise, Idaho, and it grew by 1993 to be the sixth largest supermarket chain in the nation and one of the consistently most profitable. To a large degree, that success stems from Joe Albertson and his commitment to detail, to the customer, and to merging the two. Over the years, he remained instrumental in day-to-day operations and in firmly implanting the corporate culture with his personality.

When Boise's Idaho Statesman ran a lengthy article on the 50th anniversary of this first store, a friend told the newspaper, "To know the man, just look at his stores. There is a neatness, order, a purpose for everything. This is Mr. Albertson." Each day, the grocery store magnate went to his office, described by the newspaper as "spacious but unpretentious corner office on the second floor just steps away form Warren McCain." He was careful not to interfere in the daily operations, and he enjoyed being there. "Well, still the most interesting thing that I have is being in my office every day. While I don't get to travel to all the areas as often as I'd like to, I can follow

them from the office here," Joe Albertson told the Boise newspaper.[374]

When asked about the key to success, he had a simple response: "I think a lot of the basic principles that existed in 1939 on the opening of our first store still are good principles today. We have to have the merchandise that the public is ready and willing to buy priced at a price they are willing and able to pay."[375] According to The Idaho Statesman, the only symbol of his fortune was his Mercedes. He and his wife continued to live in a modest house on the bench overlooking Boise.[376]

The success of Albertson's Inc. made Joe and Kathryn Albertson very wealthy. As the largest of the company's shareholders, their wealth soared as the profits and returns to investors grew steadily. In 1987, U.S. News and World Report's ranking of the 100 individuals with the top holdings in publicly held companies listed Joe Albertson in the 79th position, with an estimated $287 million worth of stock in the company he founded.[377] Forbes also included Joe Albertson in its annual survey of the 400 wealthiest Americans. According to its ranking, Joe Albertson was in the 215th position, his worth estimated to be $365 million. He was also on the 1988 list when his 16 percent of the company's stock made him worth $370 million. In 1989, Joe Albertson rose to the 120th slot with an estimated wealth of $600 million.[378] When asked

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[374] Paul Beebe, "Albertson: 1939 principles still work," Idaho Statesman (July 16, 1989).

[375] Ibid.

[376] Ibid.

[377] U.S. News and World Report (July 6, 1987). "Magazine Takes Stock or Riches," Idaho Statesman (June 28, 1987).

[378] Forbes. "Magazine Keeps Albertson on List, Drops Simplot," Idaho Statesman (October 13, 1987). Forbes (1988). "Black Monday Adjusts Fortunes, But Rich Stay Rich," Idaho Statesman

by the Idaho Statesman on the 50th anniversary of his first store about his goals, Joe Albertson responded simply that he plans to "keep working, keep expanding and keep the earnings up. I want to keep the goals out there for all our people to follow."[379]

Although Joe Albertson retired from management in 1976, he did remain active in a variety of capacities. He continued to serve as a Director of the Company. His presence at headquarters and throughout the corporation was also powerful, for he imprinted upon the organization his commitment to be, as he said, not the biggest, only the best. Joe Albertson maintained that while one man is limited in what he alone can accomplish, the success of an organization lies in "the hiring of good people, giving them opportunities to do great work, delegating responsibility to them and sharing profits." His commitment to the customers, the community, the company, and to his employees remained strong throughout Joe Albertson's life and he imprinted that commitment on the corporation.[380]

Joe Albertson died on January 20, 1993, at the age of 86. A short time later, the company purchased approximately 11 million shares of Albertson's common stock from the estate for $517 million, as was called for in a 1979 agreement. In a tribute to this corporate giant, Warren E. McCain, Chairman of the Executive Committee of the Board of Directors, said, "Once in a while, a person comes along who has the vision to revolutionize an entire industry. Joe Albertson was such a man."[381] And he did it in a quiet, unassuming manner. "Mrs. A," as Kathryn Albertson was known to company employees, took on an active role in the Albertson Foundation after the death of her husband, focusing attention on the children of Idaho. Mrs. A died

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(October 11, 1988). Forbes (1989). "Idahoans on Forbes List," Idaho Statesman (October 10, 1989).

379 "Albertson: 1939 Principles Still at Work."

380 "1992 Annual Report, Albertson's."

381 Ibid.

on April 31, 2002.[382]

[382] "Kathryn Albertson dies at age 93," Idaho Statesman (May 1, 2002).

CHAPTER 11

"IN THE VERY CHALLENGING TIME"
ALBERTSON'S IN THE NEW CENTURY AND THE END OF THE EMPIRE

Albertson's entered the new century at the top of the supermarket industry. Decades of steady growth, consistent profit, acquisitions, and entry into new markets had made Joe Albertson's supermarket empire the leader. But the late 1990s had proved unsettling, as Albertson's took on new burdens through the acquisition of the American Stores chain. Stock value fell and confidence was shaken as analysts questioned the direction of Albertson's and its capacity to absorb so many new stores. At the same time, competition from Wal-Mart and other big-box stores mounted, but Albertson's top management remained optimistic. After all, the company had a long history of acquisitions and growth. It knew customer service and the marketplace; it had a record of successful mergers and takeovers. This time proved to be different, however, and Albertson's struggled for the first time in its 60 year history. Change at the top ranks followed, and the board of directors brought in an outsider, also a first, to shake up the corporation. The turnaround never came, and in 2006, Albertson's was sold, with parts of the empire purchased by competitors and a holding company.

The merger with American Stores—the efforts to integrate the business cultures, bureaucracy, and structure of two rivals—proved difficult. Top management, led by Chairman Gary Michael, launched a number of new measures and tried to seize the initiative, as the corporate opened 89 new food/drug combination stores and 58 stand-alone drug stores in fiscal year 1999. The company expanded its internet shopping site, Albertsons.com, started in November 1999, and launched a similar site for drug products, Sav-ondrugs.com. These produced results that exceeded

the expectations of Wall Street.[383] During the fiscal year, the company reported earning of $955 million before costs and charges related to the merger with American Stores, a sum of about $720 million. Sales rose 4.5 percent. In April 2000, the board of directors authorized a buy-back of as much as $500 million of company common stock, a means of boosting its stock prices.[384]

To boost sales, Albertson's expanded its internet sales program during the summer of 2000, offering shoppers in selected zip code areas the convenience of picking out their products, deciding upon a pick-up location, and paying with a credit card, all on-line. Purchases made by 10:00 a.m. were ready after 5:00 p.m. the same day. With the order being pre-paid, the customer simply had to stop by store's pick-up counter to get their groceries. No need to stand in line at the check-out. "Customer service is the hallmark of Albertson's, which means providing options," the corporate manager of community relations for Albertsons.com stated. This program gave customers "the luxury of customizing that experience to fit their lifestyle."[385] Launched in 36 Albertson's stores in western Washington, the program spread quickly to other markets. By the fall of 2000, shoppers in 95 zip code areas in the state of Washington were able to order on-line for in-store pickup or home delivery. And Albertsons.com customers had the same selection of fresh foods and non-perishable grocery items as available in the conventional stores, plus some online specials. Now, they could have their orders delivered to the front door, or their office. "We understand that people are getting busier and we are making the extra effort to be at

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[383] James Frederick, "Albertson's Reports Post-Merger Profit Increases," Drug Store News (April 10, 2000).

[384] Ibid. "Albertson's Authorizes Buyback," Wall Street Journal (April 26, 2000).

[385] "Albertsons.com Announces New Pick-Up Service," Market Wire (June 2000).

their doorstep," an Albertson's manager told journalists.[386]

Albertsons.com spread to other new areas in the lucrative markets of the west coast, and it began serving San Diego in the fall of 2001, as well as several Oregon counties and the San Francisco Bay area in March 2002, offering customers more than 25,000 products and the choice of having "e-shoppers" select items for them. The website was rated among the highest by Consumer Reports for ease of use, navigation, products offered and special selections, such as "Ask the Chef." Albertsons.com was first with its innovative in-store pick-up, and "shoppers were largely impressed with service and quality."[387]

Albertson's adoption of the internet as a sales tool extended to its pharmacies, some 1,900. In May 2001, the company implemented a state-of-the-art on-line pharmacy system, which created what a trade publication termed "a nationwide virtual pharmacy that provides the convenience of online ordering and enhances the relationship between consumers and their pharmacists."[388] Customers could now fill their prescriptions through a web form on the Savon.com site, whose name comes from a chain of drug stores operated by Albertson's. The request went through a

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[386] "Albertsons.com Takes Grocery Solutions Down New Avenues," Business Wire (September 19, 2000).

[387] "Albertson's Develops Innovative Mix of On-Line and Store-Based Retailing," Stores 82(June 200), p. 146. "Albertson's Combines Web Ordering, In-Store Pickup," Gourmet News 64(August 200), p. 11. "Albertsons.com Expands On-Line Grocery Service to San Diego," Milling & Baking News 80(October 30, 2001), p. 14. "Albertsons.com Clicks With Bay Area," DSN Retailing Today 41(march 25, 2002), p. 6. "Albertsons.com Earns Consumer Reports' Stamp of Approval," Business Wire (September 26, 2000).

[388] "Albertson's Partners with Astute, Inc. On Nationwide Virtual Pharmacy," Business Wire (May 1, 2001).

team of customer agents who review each order and direct it to one of the Albertson's pharmacies or to a central fulfillment center. Customers had the choice to pick it up at their neighborhood Albertson's or have it mailed to their home. Information on each order was collected by a central Power Center, permitting customers to check on the status of their order at any time. "The single most important thing to Albertson's is our customers," the company's vice-president of e-commerce stated, repeating an Albertson's mantra. "When we execute an e-commerce strategy we want to be sure it strengthens our relationships with our customers."[389]

The adoption of a state-of-the-art network system for filling prescriptions was a smart move because pharmacies are money-making enterprises, especially when placed in large supermarkets. "Pharmacies create traffic, enhance the one-stop shopping experience and add an aura of professional prestige to the store environment," observed Drug Store News. "And it's clear from the latest numbers that supermarket operators are getting more and more successful in managing and growing the pharmacy side of the business." Sales in supermarkets rose more than 26 percent in 2001, more than three times the gain of the independent pharmacy.[390]

Albertson's Inc. also had the advantage, as did other chains, of being able to increase pharmacy productivity without having to add an additional pharmacist who carries a high salary. And the company was committed to increase the efficiency of each store's pharmacy. There was good reason for this: "saving one penny in the process of providing one script spread across every one of our pharmacies drops $1.3 million to the bottom line," Albertson's executive vice-president of drug and general merchandise

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[389] Ibid.

[390] "Supermarkets Feed on Pharmacy Sales,," Drug Store News (April 23, 2001).

observed.[391] In addition to sharpening the on-line pharmaceutical services offered to consumers, Albertson's beefed-up its Sav-on drug stores. Already in July 2000, the opening in Boise of a new and much larger Sav-on drug store--26,000 square feet or more than 10,000 square feet larger than the average store--marked the company's test of a new format. The store houses a full-service delicatessen called "J.A.'s Kitchen"; a bigger selection of groceries, including more frozen foods; a meat and deli counter; a larger wine shop with 160 linear feet of shelving and a 400 square foot walk-in beer cooler; and a video department about 10 percent larger than in Albertson's other outlets.[392]

Over-the-counter products sold by the drug and combo stores in the Albertson's empire also contributed to the company's profits and its Scottsdale based OTC/Healthcare Group developed merchandising and marketing programs for all the 2,500 plus Albertson's stores. The group's flexibility in responding to changing consumer demand has been its hallmark, as it has developed programs to go scale up or slow down its go-to-market strategy for products. A strong point was the creation of a nutrition department that "stands as a benchmark for excellence throughout all of chain retail," the trade journal Drug Store News observed. Albertson's pioneered the sale of natural health products at mass retail and this section became a destination point for many shoppers.[393]

Earnings shot up by 32 percent, but the company posted sluggish sales and lower revenues for much of the year 2000. Costs

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[391] Rob Eder, "Chains Sharpen Pharmacy Efficiencies With Technology and New Designs," Drug Store News (August 12, 2002).

[392] Allen Symons, "Albertson's Tests New Sav-on With Deli, Video Departments," Drug Store News (July 17, 2000).

[393] Rob Eder, "Sharp Merchandising Keeps OTC on Track in All Formats," Drug Store News (March 26, 2001).

related to the acquisition of American Stores continued to burden Albertson's, which reported earnings below the figures expected on Wall Street. Stock prices fell.[394] Another surprise hit Albertson's, when in early December, Gary Michael, Chairman and Chief Executive, announced his plans to retire by June 2001.[395]

In December 2000, the board launched a nationwide search, and for the first time in Albertson's history, the new chairman and chief executive came from outside the corporation. On April 24, 2001, Albertson's announced the selection of Lawrence R. Johnston, a highly regarded veteran executive from General Electric Co., from the Jack Welch school of management, who took over that same day. Johnston later recalled asking, "What's Albertson's?," when first approached by a management recruiter in March, and "it didn't take long for Johnston, then the chief executive of GE Appliances and often on the end of such feelers, to realize that Albertson's, the nation's second-largest grocery chain, was the opportunity he had been waiting for," Business Week wrote. Johnston came from the "Jack Welch school of management," having gained experience under the legendary leader of GE, and he held a number of tough posts. In the late 1990s, he went to the struggling European medical services business of GE and turned it around. That post, Business Week commented, "had been so challenging that every other job he considered felt as if he would be taking early retirement." And, as Johnston told The Wall Street Journal as he took over in Boise, "I have a burning desire to run my own company."[396]

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[394] "Albertson's Inc.: Net Income Increases 32%, But Results Miss Estimates," Wall Street Journal (December 5, 2000).

[395] "Albertson's CEO Is Set to Retire," Wall Street Journal (December 8, 2000).

[396] Stanley Holmes, "The Jack Welch Of The Meat Aisle," Business Week (January 24, 2005), p. 60. Johann S. Lublin, "Albertson's Picks an Outsider—GE Veteran Johnston–for Top Posts," Wall Street Journal (April 24, 2001).

When approached about the top spot at Albertson's, Johnston said, "This one intrigued me because it was very close to customers. It was big. It was complex. And it was broken." Also, he saw that "there's an incredible amount of shareowner value waiting to be unleashed in that company." Battles with unions, lawsuits and the problems of integrating American Stores into the Albertson's family had proven difficult and hurt the corporation. Albertson's Inc. had become what Business Week termed "a $35 billion dysfunctional mess," largely as a result of the merger. As a board member stated, "I was clear we didn't know who we were."[397] Albertson's had long stressed no-frills marketing, "firm cost controls and good low prices" in "cookie-cutter stores," the head of the CEO search committee told The Wall Street Journal. American Stores emphasized marketing and local-market positions, and the management culture of these two enterprises had a hard-time meshing. As an outsider, Johnston was "putting a whole new look on the entire package," and he came with a lot of experience in merging acquisitions and joint ventures.[398] Johnston had to act quickly. While Albertson's Inc. dealt with union demands for higher wages, various lawsuits from former and current employees, and the merger, its competitors--Target, Wal-Mart and the other big box discount retailers--rolled forward, making steady inroads into Albertson's customer base.

When he took over in April 2001, Johnston was determined to first make the corporation run more efficiently. He cut about one billion dollars in costs and spent close to another billion upgrading technology, introducing changes from the distribution system to the checkout stand. Johnston closed 500 unprofitable stores and introduced new managerial and financial discipline throughout the corporation. "Increase sales, reduce expenses and increase return

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[397] Holmes, "Jack Welch of the Meat Aisle," and Lublin, "Albertson's Picks an Outsider."

[398] Lublin, "Albertson's Picks an Outsider."

on capital in order to improve shareholder value" were the initial goals, Johnston announced at an analyst meeting for Albertson's. He introduced a plan that focused on five "strategic imperatives," namely, "aggressive cost and process control; maximize return on invested capital; customer-focused approach to growth; companywide focus on technology; and energized associates."[399] Johnston took a direct, hands-on approach, reaching out to employees through e-mail, monthly live broadcasts and direct contact as he went on the road visiting stores, talking with workers and customers. The initial steps looked promising, but "there's a huge amount of work to be done," an analyst at Lehman Brothers commented. "The industry's quite competitive. Nobody's sitting around waiting for Albertson's to get its act together."[400]

The changes at Albertson's Inc., the efforts to turn around a struggling and faltering company, reflected broader changes in the retail industry, as Kmart and Eckerd also struggled. Albertson's stood alone for several reasons. First, "it stunned more than a few industry veterans by going outside the retail fraternity to fill the vacancy created" when Gary Michael retired. Johnston had no grocery experience, and that caused some analysts to ponder "whether a non-retailer can successfully turnaround a company the size of Albertson's," and if he were successful, what might this indicate about the "next generation of retail leaders?" Second, could the Albertson's model of combining a large scale grocery store chain with a large drug store business be more successful in the long-term than traditional chains. Third, the question that many asked, how will Albertson's do against the fierce competition coming from Wal-Mart?

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[399] Tony Lisanti, "The Same Old Retailing Story–Albertson's Corporate Strategy," DSN Retailing Today (September 17, 2001); and Jonathan Burton, "Bagging Profits: Freshly Picked from GE, Albertson's Top Boss Larry Johnston is Pushing New Ideas," The Chief Executive (April 2002).

[400] Ibid.

Lastly, all of Johnston's moves were being "closely scrutinized under the Wall Street microscope."[401]

Johnston did move quickly and decisively, very much in the mode of Jack Welch. In just over a year, Albertson's "completed a restructuring, boosted cash from operations 17%, paid down $600 million in debt, closed 165 stores, begun a cost-cutting program expected to reduce outlays by a half-billion dollars a year, issued a $300 million dividend and seen its stock-market value climb 20%," a business writer for Barron's summed up his first year on the job. Johnston cut the corporate and administration staff by 15-20 percent in July 2001 and closed under performing stores, just the "first is a series of steps," he told The Wall Street Journal. "This is a company that has lost its way over the last couple of years."[402]

Sharp cuts and a rethinking of all the company's operations were seen as necessary, because "our goal is to be No. 1 or No. 2 in every market we enter or are in," Johnston observed. Analysts applauded his cost-cutting measures and the improvement in earnings. Johnston was also willing to make acquisitions, to purchase other chains if that would make Albertson's number one in a market area. Albertson's Inc. had the resources for more acquisitions. Also, Johnston viewed store remodeling, the additional of full service pharmacies, the use of customer membership cards to boost consumer loyalty and sales, and strong ethnic marketing as means to drive new growth. Some analysts remained skeptical that Albertson's could bounce back from the lackluster management of the previous couple of years. Skepticism came from board members,

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[401] Mark Tosh, "Johnston Is Writing a New Story at Albertson's," Drug Store News (August 6, 2001).

[402] Robin Blumenthal, "Grocer on a Diet: Albertson's Sheds Stores and Plumps Up its Prospects," Barron's (May 6, 2002), p. 17. Devon Spurgeon, "Albertson's to Cut Staff by 15% to 20%, Close or Sell 165 Underperforming Stores," Wall Street Journal (July 18, 2001).

too. “A year and a half ago...we’d lost our way in terms of how to go to market and the whole idea of how to differentiate us from other key competitors,” one stated. But most were optimistic about Johnston. “His approach is working, and it looks as if it has a good chance of continuing to do so,” wrote Barron’s. “In that case, smart investors may want to fill their shopping carts with Albertson’s stock, if not its groceries.”[403]

The next months were to be critical for Albertson’s Inc. to recapture its luster, to regain its place as one of the nation’s best-run and most profitable corporations. Results came rapidly from Johnston’s actions, and the company reported higher than expected first quarter earnings in June 2001, figures that exceeded Wall Street’s projections. But Albertson’s also reported a net loss for the quarter, brought about largely from costs of restructuring and the closing of 102 supermarkets, 28 drugstores, and 27 fuel centers. Sales did rise 1.4 percent at its stores. The bad news continued; Albertson’s reported a net loss for its fiscal second quarter.[404]

Stock prices fell, but Albertson’s Inc. was not alone here, as shares of Kroger and Safeway plummeted an average of 40 percent over the previous year, as the grocers were forced to cut prices to compete with Wal-Mart and other big-box discounters such as Costco. By the third quarter of fiscal 2001, Albertson’s told Wall Street that it expected to meet profit expectations, and Johnston called the gain “a respectable performance in a period that was challenged by the combined effects of our country’s continued economic weakness and heightened levels of competition in our industry.” Albertson’s Inc. planned to invest more in promotions and marketing efforts to improve sales while it continued to close

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[403] Blumenthal, “Grocer on a Diet.”

[404] ”Albertson’s Net Rises By 3.9%, Exceeding Estimates by a Penny,” Wall Street Journal (June 6, 2001). “Albertson’s Inc.: Loss Is Posted for 2nd Period Due to Restructuring Costs,” Wall Street Journal (September 5, 2001).

unprofitable outlets.[405] The measures had mixed results. Customers in the St. Petersburg, Florida, market, for example, liked neither the "displays that cluttered the aisles....[nor] The forest of blinking shelf-coupon dispensers." The "brutal" cost-cutting measures resulted in a marked drop of customer service and satisfaction.[406]

Sales remained in the doldrums for much of 2002, and by the third quarter, it lowered its earnings' forecast, prompting a 19 percent drop in stock value. Sales and net income fell.[407] The slump caused business writers to look more closely at Johnston's projected three-year turnaround that "some say isn't going fast enough." Albertson's posted a first quarter loss of $81 million, a sharp drop from the previous year when the net income was $186 million. While the company closed more than 200 lackluster stores (thereby lowering costs significantly), introduced loyalty or club cards to boost revenue, partnered up with other retailers, including Starbucks and Krispy Kreme Doughnuts, analysts remained concerned, especially because of the drop in revenue and sales in comparison to the previous year.[408]

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[405] Evelyn Ellison Twichell, "Grocery Chic: Supermarket Chains May be Ripe for Picking," Barron's (October 21, 2002), p. T7. "Grocery Chain Meets Profit Expectations," New York Times (December 10, 2002). "Albertson's Inc.: Net Rises 9.1%, but Sales Fall Amid Increased Competition," Wall Street Journal (December 10, 2002) Paula L. Stepankowsky, "Turnaround Bid by Albertson's Faces Challenges," Wall Street Journal (December 26, 2002.)

[406] Mark Albright, "Albertsons' New Deal," St. Petersburg Times (April 30, 2007).

[407] "Albertson's Lowers Quarter and Full-Year Forecasts" New York Times (November 1, 2002).

[408] "Albertson's Inc.: Loss Is Reported for Period After Restructuring Expenses," Wall Street Journal (June 6, 2002). "Paula L. Stepankowsky, "Turnaround Bid By Albertson's Faces Challenges," Wall Street Journal (December 26, 2002).

On March 13, 2003, Chairman and CEO Johnston and several other top managers spoke via a conference call with analysts, offering a review of recent developments and their plans for the future. “In this very challenging time, we were able to post year over year growth and earnings per share, and boost return on invested capital,” Johnston told his audience. “It’s fair to say that while 2001 was a year of restructuring, 2002 was a year of execution and stabilization.” Earnings per share grew, cash from operations was up by five percent, debt was reduced by $128 million, and more than $1.5 billion was invested in capital expenditures; however, sales per store dropped slightly since the previous year.[409]

Throughout, Albertson’s Inc. “continues to be driven by continuous improvement by getting closer to the customer, by energizing associates, by same store economic efficiency and by sharing best practices throughout the company,” Johnston noted, echoing some of the same values that Joe Albertson had introduced when he opened his first Albertson’s Food Center in 1939. The company focused more closely on the customer need in each neighborhood, and Johnston gave several examples. First, the addition of kosher foods has, he stated, been “well received,” and the boost in sales among kosher baked goods actually sparked a 45 percent rise in bakery sales. Second, more than 296 Starbucks coffee bars had been opened, and these experienced “strong double digit ... sales increases.” Third, a dedicated toy department for Toys R Us brands was tested in six Chicago stores, and “customers have responded enthusiastically and ... sales have more than doubled.”[410]

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[409] “Q4 2002 Albertson’s Earnings Conference Call,” FD Wire (March 19, 2003).

[410] Ibid. “Toys ‘R ‘ Us Inc.: Albertson’s Will Begin Selling Toys at Food and Drug Stores,” Wall Street Journal (June 4, 2003). “Albertson’s Agrees to Sell Toys ‘R’ Us Products,” New York Times (June 4, 2003). Sherri Day, “Forget Rye Bread, You Don’t Have to Be Jewish to Eat Kosher,” New York Times (June 28, 2003).

Looking ahead to 2003 and beyond, Johnston told analysts, "We're focusing on planning for growth in the coming years," voicing cautious optimism. "We're not just going to sit around and weather the storm like some might do," he added. "With 2,300 stores, 200,000 associates, five strong brands, over 90m square feet of selling space and 1.4b customer shopping trips per year we do control the destiny of this business." He looked to Albertson's to "continue to become a more aggressive retailer in both price and promotion," thereby regaining the pattern of strong quarterly and annual growth. "We believe Albertson's is on the right path," and "our progress will become more evident over the next several quarters."[411]

Already the next day after the conference call with analysts came more bad news--Albertson's net income fell by 29 percent amid increased competition, especially from Wal-Mart and a weak economy.[412] Weak sales and lower earnings plagued Albertson's through much of the year, with weaker than expected earnings in the first fiscal quarter, a second quarter fall in net earnings of 37 percent, and a drop of earnings in the third quarter of 51 percent when labor problems and a continued lock-out in southern California.[413]

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[411] "Q4 2002 Albertson's Earnings Conference Call."

[412] "Consumer Products Brief–Albertson's Inc.: Profit Falls 29% on Weak Sales Amid Increased Competition," Wall Street Journal (March 20, 2003). Patricia Callahan and Ann Zimmerman, "Price War in Aisle 3: Wal-Mart Tops Grocery List With Supercenter Format," Wall Street Journal (May 27, 2003). Steven Greenhouse, "Wal-Mart, Driving Workers and Supermarkets Crazy," New York Times (October 19, 2003).

[413] "Albertson's Inc.: Weaker-Than-Expected Results Are Posted for Fiscal 1st Period," Wall Street Journal (June 6, 2003). "Albertson's Inc.: Fiscal 2nd Period Net Fell 37% As Sales Edged Up Slightly," Wall Street Journal (September 5, 2003). "Albertson's Inc.: Net Income Fell 51% In Quarter Amid Labor Dispute, Lockout," Wall Street Journal (December 8, 2003). "Grocery Clerks Strike In Southern California," New York Times (October 13,

The bad news persisted well into 2004, and quarterly reports recorded dropping profits. Albertson's and Kroger, Co., the top grocers in sales, both reported sharp declines, largely because of labor problems and strikes in southern California which lasted four and a half months. At Albertson's, sales fell by five percent in the quarter just ending and net income plummeted by 37 percent.[414] The drop continued through the first fiscal quarter of 2004 when Albertson's reported a decline in net income of 79 percent. Analysts blamed the loss on the strike in southern California, which ended February 29th after nearly five months. Figures for the second fiscal quarter reported another fall in net income of 35 percent.[415]

Headquarters in Boise had geared for bad news resulting from the strike, and it introduced new measures to streamline management and operations, hoping to regain some of the luster and looking for a rebound in profits after the crippling labor battle. The company consolidated four former divisions and carried out a comprehensive reorganization of the Dallas/Fort Worth division where it dominated the market, initiatives designed to introduce a "new, leading-edge retail operations structure," Johnston explained. The new structure ensured the faster flow of information which would increase the competitive edge and it removed layers of management.[416]

2003). "Albertsons Employment Practices Litigation," www.albsuits.com.

[414] James Covet, "Kroger, Albertson's Post Decline In Profit, Expect Further Drops," Wall Street Journal (March 10, 2004).

[415] "Albertsons Inc.: Fiscal 1st Quarter Net Fell 79%, Mostly Due to Lengthy Strike," Wall Street Journal (June 3, 2004). "Albertson's Inc.: Net Income Falls 36% on Strike and Exit From Some Markets," Wall Street Journal (September 1, 2004).

[416] "A Trimmer, Slimmer Operation," MMR 21(May 3, 2004), p. 93. Jeffrey Woldt, "Albertsons Is Looking Beyond the Status Quo," MMR 21(October 4, 2004), p. 6. Elliot Zwiebach, "Albertsons May

By late 2004, Albertson's appeared to have halted the steady drop of the past two years. In December, the company reported that for the fiscal third quarter net income rose 20 percent, despite tough times for consumers and the hurricane that swept through Florida, an important market for the supermarket empire. Net income rose in the fiscal fourth quarter by 49 percent. Competition in the industry toughened, demanding more expenditures and investments than anticipated. "We were not pleased with the performance we turned in during the fourth quarter," Johnston announced.[417]

Concern among analysts mounted because they saw that Albertson's Inc. faced a tough battle for market share. But Albertson's fought back and boosted its profits for the first fiscal quarter of 2005 by $100 million, nearly tripling the previous year's figure of $36 million. The gain came in large measure from the acquisition of Shaw's grocery chain and the recovery in the lucrative southern California market.[418] The initial good news presaged internal decisions over the summer that led to a brief announcement in early September 5, 2005, that stunned many. "Giant supermarket operator Albertson's has hired Goldman Sachs Group and Blackstone Group

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Retool Dallas-Fort Worth Division," Supermarket News (October 18, 2004), p. 1.

[417] "Albertsons Inc.: Profit Rises 20% Despite Costs Related to Florida's Hurricanes," Wall Street Journal (December 3, 2004). "Albertsons Inc.: Net Income Climbs by 49%, But Retailer Notes Challenges," Wall Street Journal (March 16, 2005). "Albertsons' Earnings Rise 19.6%, Chain Drug Review 27(January 3, 2005), p. 39. "USA: Albertsons Reports Sharp Rise in Net Earnings, But CEO No Pleased," just-food.com (march 15, 2005).

[418] Brad Carlson, "Boise Based Albertsons' Stock Faces On-Going Battle for Market Share, Say Analysts," Idaho Business Review (May 9, 2005). Cynthia Schreiber, "Albertsons Gets Buyers' Attention," Wall Street Journal (June 7, 2005). "Albertsons Inc.: Profit Surges to $100 Million, Aided by Acquisition of Shaw's," Wall Street Journal (June 8, 2005).

to explore strategic options to boost shareholder value, which includes a sale of the firm," read the note in Barron's. After more than 65 years in business, Albertson's was putting itself up for sale.

"The announcement of an auction for supermarket-operator Albertsons Inc. is the latest sign that traditional grocers have lost their grip on the U.S. food-retailing market to discounter Wal-Mart Stores Inc.," commented a reporter for The Wall Street Journal. The sale promised to be one of the three largest leverage buyouts in history.[419] With news of its sale, Wall Street bought up its stock, boosting the share price 28 percent, as investors expected a quick sale and handsome profits.[420] On paper, Albertson's was valued as much as $16.5 billion, with $6.5 billion of debt. It operated about 2,500 stores in 37 states which racked up $39.9 billion in sales. As strong as these numbers were, "analysts say it is unlikely any one buyer will scoop up all of the company because it is a weak player in some markets and has too much overlap with the major chains to pass regulatory approval," observed a business reporter for The Wall Street Journal.[421] In short, the empire founded and built by Joe Albertson was to be carved up, pieces going to the highest bidder.

The auction moved only slowly with few interested parties. Wall Street had second thoughts, now thinking that Albertson's real estate was not as valuable as first thought or that the timing was not right for another grocery chain to take over Albertson's 2,500 stores. According to reporters, several private equities showed an interest in purchasing the company, with five parties making offers. In October,

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[419] Janet Adamy and Denis K. Berman, "Auction of Albertsons Attests to Reach of Wal-Mart," Wall Street Journal (September 6, 2005).

[420] Janet Adamy, "Albertson's Proves a Tough Sale," Wall Street Journal (October 21, 2005).

[421] Janet Adamy, "Board Considers a Sale In Fickle Market," Walt Street Journal Europe (September 5, 2005).

Kroger Co. entered the bidding and submitted a preliminary bid. The largest traditional supermarket by revenue, Kroger had made some major acquisitions in the late 1990s and successfully absorbed them into its empire. Although Kroger had since 2001 focused on reducing its prices in order to compete with the behemoth Wal-Mart, buying up Albertson's would give it access to new markets, including a strong presence in the New England and Chicago markets.[422] The deal with Kroger faced some hurtles, and because of regulatory measures, it would have to sell 45 percent of the Albertson's food stores, thereby significantly reducing the revenue of the combined empires. While the purchase of Albertson's Inc. would boost revenues and bring them close to those of Wal-Mart, the nation's leading grocer, Kroger's prices were still higher than those of the massive discounter Wal-Mart. "A merger would create a distraction for a company already dealing with the threat of Wal-Mart's expansion," commented an analyst with Lehman Brothers Holdings Inc. Such a deal is "not a clear win for Kroger shareholders."[423]

By late 2005, a deal for the sale of Albertson's, the nation's number two grocer by sales, seemed close, with an investment group of Cerberus Capital, Kimco Realty Corp. and the grocery chain Supervalu, Inc. ready to make the purchase for $9.6 billion. Supervalu, the nation's eighth largest food retailer, stood to gain outlets and new food distribution centers in the deal. Analysts expected store closings and "heavy layoffs" as the Albertson's "grocery empire gets picked apart in the face of poor financial results and mounting market power from Wal-Mart Stores Inc." CVS would take over the drugstores. Estimates for the number of Albertson's grocery stores to be disposed of were as high as 470, as the value of

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[422] Dennis K. Berman and Janet Adamy, "Kroger Makes Albertson's bid," Wall Street Journal (October 22, 2005).

[423] Janet Adamy, "Albertson's May Not Be Panacea for Kroger," Wall Street Journal (October 26, 2005).

the real estate exceeded that of the business.[424]

The discussions continued, but Albertson's board hesitated, reluctant to accept the $26 per share case and stock offered. By December 22nd, it appeared that the deal was off, that the board had held firm, and that meant that the company's stock value could plummet. Trading on Albertson's Inc. options was heavy, and by the next day, reports that the talks had collapsed hit the press. This led the trade journal, Supermarket News, to conclude that "Albertson's future is murky, not least because the deal's failure may spark stockholder challenges to a seemingly indecisive and ineffectual top management and board."[425]

In mid-January, a consortium of investors and Supervalu offered a new bid to the board of Albertson's, leading to a surge in its stock price once again. The reported offer was $26.20 a share, just up from the $26.00 offered in December. Now, Albertson's board was interested and backed Johnston in his effort to sell Joe Albertson's empire. The deal would involve breaking it up into three parts, with the drug stores going to CVS, the most attractive outlets to Supervalu, and the remaining stores either turned around or sold for the real estate they sat on. Either way, the deal would be a big

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424 Dennis K. Berman, Janet Adamy and Henny Sender, "Cerberus Group Nears Albertson's Deal," Wall Street Journal (December 16, 2005).

425 Dennis K. Berman and Janet Adamy, "Albertson's Weighs Whether to Accept Consortium's Offer," Wall Street Journal (December 22, 2005). Mohammed Hadi, "Traders Clamor Over Albertson's, Wall Street Journal (December 23, 2005). Dennis K. Berman and Janet Adamy, " Albertson's Buyout Deal Collapses," Wall Street Journal (December 23, 2005). David Merefield, "The Strange Sage of Albertson's and What It Means," Supermarket News (January 2, 2006).

boost for Supervalu and CVS.[426]

The announcement came on the afternoon of Monday, January 23, 2006, that a consortium of Supervalu, CVS Corp and an investment group led by Cerberus Capital Management would purchase Albertson's Inc. for $17.4 billion in cash, stock and debt. Supervalu was the clear winner--it acquired the operations of several chains operated by Albertson's under the Acme Markets, Bristol Farms, Jewel-Osco, Shaw's Supermarkets and Star Markets' names and the choicest of Albertson's stores, a total of 1,124 units. CVS took over the stand-along drug store business, including 700 Osco and Sav-on drug stores. Supervalu had a three year plan for integrating Albertson's into its enterprise, but risks remained. "Supervalu will have a tough road ahead as it tries to revive the stores," Thomson Financial News commented.[427]

The announcement shook Boise and all of Idaho, as an empire, started in the Gem State that went on to conquer much of the nation, collapsed so quickly. And tempers rose when it was disclosed that Johnston could leave with some $40 million in cash and stock options. A local group launched a campaign calling for transparency in the deal and urging a class-action lawsuit. A few

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[426] Dennis K. Berman and Janet Adamy, "Albertson's Bidders Revive Deal Talk," Wall Street Journal (January 19, 2006). Jennifer Waters, "Albertson's Stock Surges After Report of a New Bid," Thomson Financial News (January 19, 2006).

[427] Steven Oberbeck and Bob Mims, "Albertsons Sold, But the Name Will Stay," Salt Lake Tribune (January 24, 2006). Jerry Hirsch, "Albertsons to be Sold, Divided Into 3," Los Angeles Times (January 24, 2006). Mark Duff, "Supervalu Transformed Into National Powerhouse," DSN Retailing Today (February 6, 2006). Mike Duff, "SuperValu Emerges as New Dominant Force in Food and Pharmacy," Drug Store News (February 13, 2006). Angela Moore, "Albertson's Deal Gets Done for $17.4 Billion," Thomson Financial News (January 23, 2006).

journalists began to doubt to value of the “GE Way” of management.[428] Regardless of the pressures, the shareholders voted “overwhelmingly” in May 2006 to approve the company’s acquisition. In the short term, the purchase hit Supervalu’s bottom line, causing a drop in sales and earnings.[429] For Idaho, it meant the loss of an icon and an institution, a source of enormous pride throughout the Gem State: One of its own, Joe Albertson, had built an empire that revolutionized an American original and dominated the industry.[430] Most individuals who have lived in Idaho during the past 60 plus years have had contact with Albertson’s, either as the convenient and well-like local grocery store or as a source of employment or investment income. In less time than it took Joe

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[428] Melissa McGrath, “Web Site Wants Full Disclosure of Sale of Albertson’s,” Idaho Statesman (February 19, 2006). Claudia H. Deutsch, “The GE Way Isn’t for Everyone,” International Herald Tribune (January 4, 2007). George Anders, “GE Alumni Find It Harder to Shine,” Asian Wall Street Journal (May 16, 2003). “Albertson’s CEO Larry Johnston’s $8 Million Raise in 2005,” Idaho Statesman (April 23, 2006). According to The St. Petersburg Times, Johnston left “with a $105-million golden parachute for his five-year contribution as CEO,” in “Albertson’s New Deal.”

[429] Gabriel Madway, “Albertson’s Shareholders Approve $17.4 Billion Acquisition,” Thomson Financial News (May 30, 2006). Dan Burrow, “Albertson’s, Supervalu Shareholders Approve Acquisition,’ Thomson Financial News (May 30, 2006). Supervalu rebounded in early 2007, see “Idaho-Based Albertsons Stores Boost Supervalu 4Q Earnings,” Idaho Business Review (April 23, 2007); and “Supervalu Inc.,” Hoover’s In-Depth Company Records (April 25, 2007).

[430] Dale Kasler, “Albertsons Will Fade Away,” Modesto Bee (November 29, 2006). Albertson’s continues to operate, however, in a number of markets; see www.supervalu.com.

Albertson to open a couple of more stores after launching the first Albertson's Food Center, the empire he had founded was gone. By late 2006, its buyer was already planning to get rid of the Albertson's name on many of the stores, although some "Albertson's" outlets can still be found.[431] Joe Albertson and his supermarket empire will remain but a memory.

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[431] Victoria Colliver, "Save Mart Buys Remaining Albertsons Stores," San Francisco Chronicle (November 28, 2006). "Save Mart Buys NoCal Division from Albertsons, LLC.," Progressive Grocer (December 1, 2006), pp. 6, 10.

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